

RAM Holdings Ltd.

**Unaudited Financial Statements
For the Quarter Ended
March 31, 2009**

RAM Holdings Ltd.
Consolidated Balance Sheets
(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of \$466,161,547 and \$415,558,752)	\$ 466,094,463	\$ 421,890,248
Cash and cash equivalents	3,892,566	8,763,062
Restricted cash	2,105,078	8,284,459
Accrued investment income	3,523,599	4,437,636
Reinsurance balances receivable, net	79,856,397	1,115,413
Recoverables on paid losses	8,296,313	1,796,842
Deferred policy acquisition costs	126,125,136	74,795,257
Prepaid reinsurance premiums	1,862,029	1,599,174
Other receivables	4,000,000	4,000,000
Deferred expenses	1,547,732	1,588,217
Prepaid expenses	3,467,704	377,372
Financial instruments at fair value	—	43,083,370
Other assets	173,164	2,550,875
Total assets	\$ 700,944,181	\$ 574,281,925
LIABILITIES AND EQUITY		
Liabilities:		
Losses and loss expense reserve	\$ 129,259,093	\$ 95,794,254
Unearned premiums	327,382,943	158,593,738
Reinsurance balances payable	7,773,647	24,621,111
Accounts payable and accrued liabilities	2,869,023	2,493,959
Accrued interest payable	—	693,151
Derivative liabilities	73,135,352	85,353,670
Other liabilities	—	2,374,153
Long-term debt	40,000,000	40,000,000
Redeemable preference shares (\$1,000 redemption value and \$0.10 par value; authorized shares – 75,000; issued and outstanding shares – 75,000 at March 31, 2009 and December 31, 2008)	75,000,000	75,000,000
Total liabilities	655,420,058	484,924,036
Commitments and contingencies		
Shareholders' equity:		
Common shares (\$0.10 par value; authorized shares – 90,000,000; issued and outstanding shares – 27,282,579 shares at March 31, 2009 and 27,251,595 shares at December 31, 2008)	2,728,258	2,725,160
Additional paid-in capital	230,660,804	230,438,128
Accumulated other comprehensive (loss) income	(67,084)	6,331,496
Retained deficit	(195,912,245)	(150,136,895)
Total shareholders' equity	37,409,733	89,357,889
Noncontrolling interest – Series B preferred shares of subsidiary	8,114,390	—
Total equity	45,524,123	89,357,889
Total liabilities and equity	\$ 700,944,181	\$ 574,281,925

RAM Holdings Ltd.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Revenues:		
Net premiums earned	\$ 9,205,297	\$ 13,198,209
Change in fair value of credit derivatives:		
Realized gains and other settlements	892,600	2,613,913
Unrealized gains/(losses)	12,012,217	(166,384,311)
Net change in fair value of credit derivatives	12,904,817	(163,770,398)
Net investment income	3,427,655	8,212,305
Net realized gains (losses) on investments	464,742	(911,716)
Net unrealized (losses) gains on other financial instruments	(1,196,760)	1,340,000
Total revenues	24,805,751	(141,931,600)
Expenses:		
Losses and loss adjustment expenses	16,743,342	37,527,859
Acquisition expenses	3,960,800	4,618,971
Operating expenses	5,216,914	4,708,791
Interest expense	681,849	681,849
Total expenses	26,602,905	47,537,470
Net loss before noncontrolling interest	\$ (1,797,154)	\$ (189,469,070)
Noncontrolling interest – dividends on preferred shares of subsidiary	(137,228)	—
Net loss available to common shareholders	\$ (1,934,382)	\$ (189,469,070)
Net loss per common share:		
Basic	\$ (0.07)	\$ (6.95)
Diluted	(0.07)	(6.95)
Weighted-average number of common shares outstanding:		
Basic	27,263,588	27,243,316
Diluted	27,263,588	27,243,316

RAM Holdings Ltd.
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Net loss	\$ (1,797,154)	\$ (189,469,070)
Other comprehensive (loss) income		
Change in unrealized appreciation/(depreciation) of investments	(5,933,838)	8,142,275
Less: Reclassification adjustment for net realized (gains) losses on investments included in net income (loss)	(464,742)	911,716
Other comprehensive (loss) income	(6,398,580)	9,053,991
Comprehensive loss for the year	(8,195,734)	(180,415,079)

RAM Holdings Ltd.
Consolidated Statements of Equity and Retained Deficit

(unaudited)

	<u>Share capital</u>	<u>Noncontrolling interest in subsidiary</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained deficit</u>	<u>Total</u>
Balance, December 31, 2008	\$ 2,725,160	\$ —	\$ 230,438,128	\$ 6,331,496	\$ (150,136,895)	\$ 89,357,889
Cumulative effect of adopting FAS 163, effective January 1, 2009	—	—	—	—	(43,840,968)	(43,840,968)
Share issuance	3,098	8,114,390	(3,098)	—	—	8,114,390
Share based compensation	—	—	225,774	—	—	225,774
Net loss	—	—	—	—	(1,797,154)	(1,797,154)
Dividends on preferred shares of subsidiary	—	—	—	—	(137,228)	(137,228)
Other comprehensive loss	—	—	—	(6,398,580)	—	(6,398,580)
Balance, March 31, 2009	<u>\$ 2,728,258</u>	<u>\$ 8,114,390</u>	<u>\$ 230,660,804</u>	<u>\$ (67,084)</u>	<u>\$ (195,912,245)</u>	<u>\$ 45,524,123</u>

RAM Holdings Ltd.
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net loss for the period	\$ (1,797,154)	\$ (189,469,070)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net realized (gains) losses on investments	(464,742)	911,716
Net unrealized (gains) losses on credit derivatives	(12,012,217)	166,384,311
Net unrealized (gain) loss on other financial instruments	1,196,760	(1,340,000)
Depreciation and amortization	51,789	49,150
Amortization of debt discount	1,570	1,570
Amortization of bond premium and discount	423,130	282,362
Share based compensation	225,774	309,395
Changes in assets and liabilities:		
Accrued investment income	914,037	185,304
Reinsurance balances receivable	7,527,756	1,961,401
Recoverables on paid losses	(6,126,734)	(90,163)
Deferred policy acquisition costs	3,378,782	(891,722)
Prepaid reinsurance premiums	18,787	(954,170)
Prepaid expenses and other assets / liabilities	(3,090,332)	(2,667,854)
Other receivables	—	(4,000,000)
Losses and loss adjustment expenses	7,225,981	30,532,381
Unearned premiums	(7,240,737)	4,402,804
Derivative liability	(206,101)	125,853
Reinsurance balances payable	(51,413)	163,190
Accounts payable and accrued liabilities	375,064	1,031,266
Accrued interest payable	(693,151)	(693,151)
Net cash (used in) provided by operating activities	(10,343,151)	6,234,573
Cash flows from investing activities:		
Proceeds from sales of fixed maturity securities	86,565,758	23,158,267
Purchases of fixed maturity securities	(154,255,619)	(71,586,816)
Proceeds on maturities of fixed maturity securities	17,128,680	41,229,827
Net change in restricted cash	6,179,380	1,420,007
Purchases of fixed assets	(9,316)	(2,000)
Net cash used in investing activities	(44,391,117)	(5,780,715)
Cash flows from financing activities:		
Dividends on preferred shares of subsidiary	(137,228)	—
Net proceeds from issuance of preference shares	50,001,000	—
Net cash provided by financing activities	49,863,772	—
Net (decrease) increase in cash and cash equivalents	(4,870,496)	453,858
Cash and cash equivalents – Beginning of period	8,763,062	12,326,313
Cash and cash equivalents – End of period	\$ 3,892,566	\$ 12,780,171
Supplemental cash flow disclosure:		
Dividends paid on preferred shares of subsidiary	\$ 137,228	\$ —
Interest paid on long-term debt	\$ 1,375,000	\$ 1,375,000

RAM Holdings Ltd.
Explanatory notes

The interim unaudited consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). These statements should be read in conjunction with the audited consolidated financial statements and notes for the period ended December 31, 2008, for RAM Holdings Ltd. included in the Company’s Annual Report on Form 10-K (“Form 10-K”), filed with the Securities and Exchange Commission (“SEC”).

Adoption of FAS 163

On May 23, 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No.163 “Accounting for Financial Guarantee Insurance Contracts” (“FAS 163”). FAS 163 clarifies how FASB Statement No.60 “Accounting and Reporting by Insurance Enterprises” applies to financial guaranty insurance contracts. FAS 163 is focused on the recognition and measurement of premium revenue and claims liabilities, along with additional disclosure requirements for financial guaranty contracts. FAS 163 requires the following:

1. Premium revenue will be recognized as a function of the amount of insurance protection provided over the contract term.
2. Present value of installment premiums due pursuant to the terms of a financial guaranty insurance contract will be recognized at inception of the contract as unearned premiums and premiums receivable.
3. A claim liability will be established on a financial guaranty contract when the probability weighted net present value of an expected claim loss is estimated to exceed the related unearned premium revenue. Provision of unallocated reserves is not permitted under FAS 163.
4. Additional disclosures will be required on financial guaranty contracts, including the accounting and risk management activities used to evaluate credit deterioration in the Company’s insured obligations and surveillance lists.

FAS 163 is effective for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, with the exception of certain risk management disclosures which were effective for the interim financial statements prepared as of September 30, 2008. FAS 163 does not apply to policies which are credit derivatives under the scope of FAS 133 “Accounting for Derivative Instruments and Hedging Activities”. The cumulative effect of adopting FAS 163 is recognized as an adjustment to opening retained earnings as of January 1, 2009.

The impact of adopting FAS 163 on the Company’s balance sheet was as follows:

	December 31, 2008 As reported	Transition Adjustment	January 1, 2009 As adjusted for FAS 163
ASSETS:			
Reinsurance balances receivable, net ⁽¹⁾	\$ 1,115,413	\$ 86,268,741	\$ 87,384,154
Recoverable on paid losses ⁽³⁾	1,796,842	372,737	2,169,579
Deferred policy acquisition costs ⁽²⁾	74,795,257	54,708,661	129,503,918
Prepaid reinsurance premiums ⁽²⁾	1,599,174	281,642	1,880,816
Total assets	\$ 574,281,925	\$ 141,631,781	\$ 715,913,706
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Losses and loss expense reserve ⁽³⁾	95,794,254	26,238,858	122,033,112
Unearned premiums ⁽²⁾	158,593,738	176,029,942	334,623,680
Reinsurance balances payable ⁽¹⁾	24,621,111	(16,796,051)	7,825,060
Total liabilities	\$ 484,924,036	\$ 185,472,749	\$ 670,396,785
Retained deficit ⁽⁴⁾	(150,136,895)	(43,840,968)	(193,977,863)
Total shareholders’ equity	89,357,889	(43,840,968)	45,516,921
Total liabilities and shareholders’ equity	\$ 574,281,925	\$ 141,631,781	\$ 715,913,706

- (1) Reinsurance balances receivable and reinsurance balances payable were increased and decreased, respectively, to reflect the net present value of future installment premiums, net of ceding commissions (including the accrual for additional ceding commissions), discounted at a risk free rate.
- (2) Unearned premiums and prepaid reinsurance premiums were increased to reflect the change in premium earning methodology under FAS 163 along with the net present value of installment premiums, on assumed and retroceded policies respectively. Deferred policy acquisition costs increased to reflect the associated acquisition costs on the increased unearned premium balances.
- (3) Losses and loss expense reserves were increased for the new reserving methodology under FAS 163. This was offset by a decrease in reserves for the release of the unallocated loss reserves which are not allowed under FAS 163.
- (4) Retained deficit was increased for the net effect of the transition adjustments as at January 1, 2009.