



# RAM HOLDINGS LTD.

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THREE MONTH REPORT

MARCH 31, 2011

# **RAM Holdings Ltd.**

**Unaudited Consolidated Financial Statements  
For the Period Ended  
March 31, 2011**



**RAM Holdings Ltd.**  
**Consolidated Balance Sheets**  
(Unaudited)

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of \$262,876,768 and \$280,807,063)	\$ 272,399,341	\$ 291,620,381
Cash and cash equivalents	31,402,341	5,718,195
Restricted cash	10,130,851	16,722,247
Accrued investment income	1,759,763	1,817,815
Reinsurance balances receivable, net	16,557,978	17,659,316
Recoverables on paid losses	20,929,693	19,231,274
Deferred policy acquisition costs	53,065,779	54,870,327
Deferred expenses	499,107	520,640
Other assets	777,275	192,853
<b>Total assets</b>	<b>\$ 407,522,128</b>	<b>\$ 408,353,048</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Losses and loss expense reserve	\$ 52,147,610	\$ 52,411,626
Unearned premiums	129,330,930	133,666,192
Accounts payable and accrued liabilities	1,323,700	1,248,172
Derivative liabilities	62,440,042	63,524,831
Redeemable Series A preference shares (\$1,000 redemption value and \$0.10 par value; authorized shares – 75,000; issued and outstanding shares – 59,700 at March 31, 2011 and December 31, 2010)	59,700,000	59,700,000
<b>Total liabilities</b>	<b>304,942,282</b>	<b>310,550,821</b>
Shareholders' equity:		
Common shares (\$0.10 par value; authorized shares – 90,000,000; issued and outstanding shares – 26,401,837 shares at March 31, 2011 and 26,394,564 shares at December 31, 2010)	2,640,184	2,639,456
Additional paid-in capital	231,382,135	231,339,583
Accumulated other comprehensive income	9,522,573	10,813,318
Retained deficit	(147,975,901)	(154,000,985)
<b>Total shareholders' equity</b>	<b>95,568,991</b>	<b>90,791,372</b>
Noncontrolling interest – Class B preference shares of subsidiary	7,010,855	7,010,855
<b>Total equity</b>	<b>102,579,846</b>	<b>97,802,227</b>
<b>Total liabilities and equity</b>	<b>\$ 407,522,128</b>	<b>\$ 408,353,048</b>

**RAM Holdings Ltd.**  
**Consolidated Statements of Operations**  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Net premiums earned	\$ 4,412,582	\$ 3,688,081
Change in fair value of credit derivatives:		
Realized gains (losses) and other settlements	1,454,607	(1,469,364)
Unrealized gains (losses)	1,006,286	(7,551,845)
Net change in fair value of credit derivatives	2,460,893	(9,021,209)
Net investment income	2,397,883	3,159,049
Net realized gains on sale of investments	685,442	444,365
Total other-than-temporary impairment losses	—	(9,784)
Portion of impairment losses recognized in other comprehensive income (loss)	—	3,599
Net other-than-temporary impairment losses (recognized in earnings)	—	(6,185)
Foreign currency gains (losses)	311,675	(362,467)
Net gain on extinguishment of long-term debt	—	4,500,000
Net gain on extinguishment of redeemable Series A preference shares	—	11,475,000
<b>Total revenues</b>	<b>10,268,475</b>	<b>13,876,634</b>
<b>Expenses:</b>		
Losses and loss adjustment expenses	443,796	5,966,516
Acquisition expenses	1,900,163	1,593,471
Operating expenses	1,899,432	3,913,205
Interest expense	—	584,375
<b>Total expenses</b>	<b>4,243,391</b>	<b>12,057,567</b>
<b>Net income</b>	<b>\$ 6,025,084</b>	<b>\$ 1,819,067</b>
Noncontrolling interest – dividends on Class B preference shares of subsidiary	—	—
<b>Net income available to common shareholders</b>	<b>\$ 6,025,084</b>	<b>\$ 1,819,067</b>
Net income per common share:		
Basic	\$ 0.23	\$ 0.07
Diluted	\$ 0.23	\$ 0.07
Weighted-average number of common shares outstanding:		
Basic	26,397,165	26,502,426
Diluted	26,480,043	26,502,426

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Net income</b>	\$ 6,025,084	\$ 1,819,067
<b>Other comprehensive income (loss)</b>		
Change in unrealized fair value of investments	(605,303)	3,886,258
Less: Reclassification adjustment for net realized gains on investments included in net income	(685,442)	(444,365)
Less: Net other-than-temporary impairment losses (recognized in earnings)	—	6,185
Portion of impairment losses recognized in other comprehensive income (loss)	—	(3,599)
Other comprehensive income (loss)	(1,290,745)	3,444,479
<b>Comprehensive income for the period</b>	<b>\$ 4,734,339</b>	<b>\$ 5,263,546</b>

**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</u>	<u>Retained deficit</u>	<u>Total</u>
Balance, December 31, 2010	\$ 2,639,456	7,010,855	231,339,583	10,813,318	(154,000,985)	97,802,227
Share issuance	728	—	(728)	—	—	—
Share based compensation	—	—	43,280	—	—	43,280
Net income	—	—	—	—	6,025,084	6,025,084
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	(1,290,745)	—	(1,290,745)
Balance, March 31, 2011	<u>\$ 2,640,184</u>	<u>\$ 7,010,855</u>	<u>\$ 231,382,135</u>	<u>\$ 9,522,573</u>	<u>\$ (147,975,901)</u>	<u>\$ 102,579,846</u>

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net income for the period	\$ 6,025,084	\$ 1,819,067
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized gains on sale of investments	(685,442)	(444,365)
Net other-than-temporary impairment losses recognized in earnings	—	6,185
Foreign currency (gains) losses on revaluation	(306,324)	362,467
Net unrealized (gains) losses on credit derivatives	(1,006,286)	7,551,845
Net gain on extinguishment of long-term debt	—	(4,500,000)
Net gain on extinguishment of redeemable Series A preference shares	—	(11,475,000)
Depreciation and amortization	28,550	323,584
Amortization of debt discount	—	34,505
Amortization of bond premium and discount	111,795	182,273
Share based compensation	43,280	155,246
Changes in assets and liabilities:		
Accrued investment income	58,052	(132,347)
Reinsurance balances receivable, net	1,407,662	1,898,479
Recoverables on paid losses	(1,698,419)	9,851
Deferred policy acquisition costs	1,804,548	1,533,002
Other assets	(591,441)	(549,616)
Losses and loss adjustment expenses	(264,016)	2,053,375
Unearned premiums	(4,335,262)	(3,370,365)
Derivative liability	(78,503)	2,054,538
Accounts payable, accrued liabilities and interest payable	75,528	(338,990)
<b>Net cash provided by (used in) operating activities</b>	<b>588,806</b>	<b>(2,826,266)</b>
Cash flows from investing activities:		
Purchases of investments	(18,638,535)	(17,788,372)
Proceeds from sales of investments	31,323,500	17,890,753
Proceeds on maturities of investments	5,818,978	15,481,367
Net change in restricted cash	6,591,397	(1,598,435)
Purchases of fixed assets	—	(6,740)
<b>Net cash provided by investing activities</b>	<b>25,095,340</b>	<b>13,978,573</b>
Cash flows from financing activities:		
Repurchase of redeemable Series A preference shares	—	(3,825,000)
Repurchase of long-term debt	—	(5,500,000)
Repurchase of noncontrolling interest	—	(1,700,000)
<b>Net cash used in financing activities</b>	<b>—</b>	<b>(11,025,000)</b>
<b>Net increase in cash and cash equivalents</b>	<b>25,684,146</b>	<b>127,307</b>
Cash and cash equivalents – Beginning of period	5,718,195	9,311,110
<b>Cash and cash equivalents – End of period</b>	<b>\$ 31,402,341</b>	<b>\$ 9,438,417</b>
Supplemental cash flow disclosure:		
Interest paid on long-term debt	\$ —	\$ 1,203,125

**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, 2010 for RAM Holdings Ltd. which are posted on the Company’s website and can be found at [www.ramre.com](http://www.ramre.com) under “investor information”.

**Subsequent Events:**

Effective April 15, 2011, RAM Re entered into a Settlement Agreement (the “Settlement Agreement”) with one of its ceding companies. The Settlement Agreement provided, among other things, for RAM Re to make a \$2.3 million payment to commute the reinsurance with respect to certain policies written in credit derivative form, with par in-force as of December 31, 2010 of \$129.8 million. Under the Settlement Agreement, each party was released from all liabilities and obligations under the commuted reinsurance. The effect of this transaction will be recorded by the Company in the second quarter of 2011.

On April 15, 2011, Assured Guaranty Ltd. and its subsidiaries (“Assured”) announced that they had reached a settlement with Bank of America Corporation and its subsidiaries (the “Assured Settlement”) regarding their liabilities with respect to various RMBS transactions insured by Assured, including claims relating to reimbursement for breaches of representations and warranties (“R&W”). A number of the Company’s policies assumed from Assured are affected by this settlement. The Company has received sufficient information relating to the Assured Settlement that it now considers this to be a subsequent event that provides additional evidence about conditions that existed at March 31, 2011 and, as a result, the effects of this subsequent event must be recognized in the Company’s financial statements. Accordingly, the Company has reflected updated assumptions and estimates in its unaudited interim financial statements for the three months ended March 31, 2011. For transactions covered under the Assured Settlement, the R&W benefit has been updated to reflect amounts collected and expected to be collected subsequent to March 31, 2011 under the terms of the Assured Settlement. On May 17, 2011 the Company received \$19.9 million from Assured in relation to this settlement and anticipates it will receive the remaining payments (totaling approximately \$6.1 million) by the middle of 2012.



## Security Ownership of EXECUTIVE Officers and Directors

Pursuant to Regulation 6.9(2)(x)(a) and (b) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Company in the common shares of the Company as at March 31, 2011, were 738,070 shares.

## Equity Compensation of Directors

The table below sets forth the aggregate number of shares underlying equity awards outstanding at March 31, 2011, for each director who has received equity awards (equity awards relating to David Steel are included in the executive officers table following):

Name	Shares Underlying Options at March 31, 2011 (#) (Outstanding)	Shares Underlying Options at March 31, 2011 (#) (Exercisable)	RSU's: Number of Shares that Have Not Vested (#)
Edward F. Bader .....	50,800	20,800	28,674
David L. Boyle .....	48,200	18,200	28,674
Clement S. Dwyer .....	30,000		28,674
Steven J. Tynan .....	30,000		28,674

Share options granted to the directors under the 2001 Stock Option Plan prior to 2006 vest quarterly over a three-year period. Share options granted to directors beginning in 2006 under the 2006 Equity Plan vest in four equal annual installments on the first four anniversaries of the date of grant.

## Equity Compensation of Executive Officers

The following table shows equity awards granted to executive officers of the Company outstanding at March 31, 2011:

Name	Shares Underlying Options at March 31, 2011 (#) (Outstanding)	Shares Underlying Options at March 31, 2011 (#) (Exercisable)	RSUs: Number of Shares that Have Not Vested (#)
David K. Steel	435,903	386,278	—

Options granted prior to May 2006 were awarded under the 2001 Stock Option Plan and vest in 5% increments at the end of each quarter, beginning with the quarter in which the grant occurred. The 2001 Stock Option Plan was terminated in May 2006, except as to awards that were already outstanding at that date. No further awards will be granted under the 2001 Stock Option Plan.

Options granted beginning in May 2006 were awarded under the 2006 Equity Plan, and vest in four equal installments on the first four anniversaries of the date of grant.

There have been no options exercised during the three months ended March 31, 2011.

**RAM Holdings Ltd. Corporate Information****Corporate Headquarters**

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**Investor Information**

Information about RAM Holdings Ltd., including all quarterly earnings releases and reports, can be accessed via our website at [www.ramre.com](http://www.ramre.com) under Investor Information.

Requests for copies of the RAM Holdings Ltd. 2011 quarterly reports may be made by contacting the Secretary of RAM Holdings at the Corporate Headquarters address above or [info@ramre.com](mailto:info@ramre.com).

**Exchange Listing**

RAM Holdings Ltd. common shares are listed on the Bermuda Stock Exchange (BSX) located at:

Phase 1 – Third Floor, Washington Mall  
Church Street  
Hamilton, HM 11 Bermuda  
441-292-7212 or -7213  
[www.bsx.com](http://www.bsx.com)

**Transfer Agent**

BNY Mellon

Telephone Number:

1-877-296-3711

1-610-382-7833 (Outside the U.S.)

1-888-269-5221 (Hearing Impaired - TDD Phone)

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**Independent Registered Auditors**

Deloitte & Touche Ltd.