



# RAM HOLDINGS LTD.

---

SIX MONTH REPORT

JUNE 30, 2011

# **RAM Holdings Ltd.**

**Unaudited Consolidated Financial Statements  
For the Period Ended  
June 30, 2011**



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

	<b>June 30, 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 \$275,654,349 and \$280,807,063)	\$ 286,679,273	\$ 291,620,381
Cash and cash equivalents	18,763,687	5,718,195
Restricted cash	26,636,770	16,722,247
Accrued investment income	1,692,164	1,817,815
Reinsurance balances receivable, net	14,322,722	17,659,316
Recoverables on paid losses	6,443,672	19,231,274
Deferred policy acquisition costs	49,398,022	54,870,327
Deferred expenses	477,334	520,640
Other assets	550,381	192,853
<b>Total assets</b>	<b>\$ 404,964,025</b>	<b>\$ 408,353,048</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Losses and loss expense reserve	\$ 60,436,580	\$ 52,411,626
Unearned premiums	118,604,532	133,666,192
Accounts payable and accrued liabilities	750,823	1,248,172
Derivative liabilities	62,891,537	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 June 30, 2011 and December 31, 2010)	59,700,000	59,700,000
<b>Total liabilities</b>	<b>302,383,472</b>	<b>310,550,821</b>
Shareholders' equity:		
Common shares	2,643,051	2,639,456
Additional paid-in capital	231,408,323	231,339,583
Accumulated other comprehensive income	11,024,924	10,813,318
Retained deficit	(149,506,600)	(154,000,985)
<b>Total shareholders' equity</b>	<b>95,569,698</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>102,580,553</b>	<b>97,802,227</b>
<b>Total liabilities and equity</b>	<b>\$ 404,964,025</b>	<b>\$ 408,353,048</b>

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

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>				
Net premiums earned	\$ 3,611,752	\$ 4,232,129	\$ 8,024,334	\$ 7,920,210
Change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	(1,473,491 )	1,023,214	(18,884 )	(446,150)
Unrealized gains (losses)	118,118	11,966,082	1,124,404	4,414,237
Net change in fair value of credit derivatives	(1,355,373 )	12,989,296	1,105,520	3,968,087
Net investment income	2,350,360	2,760,184	4,748,243	5,919,233
Net realized gains on sale of investments	8,409	861,972	693,851	1,306,337
Total other-than-temporary impairment losses	—	(22,716 )	—	(32,500 )
Portion of impairment losses recognized in other comprehensive income (loss)	—	19,905	—	23,504
Net other-than-temporary impairment losses (recognized in earnings)	—	(2,811 )	—	(8,996 )
Foreign currency gains (losses)	199,924	(617,297 )	511,599	(979,765 )
Net gain on extinguishment of redeemable Series A preference shares	—	—	—	11,475,000
Net gain on extinguishment of long-term debt	—	10,750,000	—	15,250,000
<b>Total revenues</b>	<b>4,815,072</b>	<b>30,973,473</b>	<b>15,083,547</b>	<b>44,850,106</b>
<b>Expenses:</b>				
Loss and loss adjustment expenses	3,120,616	(1,235,065 )	3,564,412	4,731,451
Acquisition expenses	1,555,823	1,897,485	3,455,986	3,490,956
Operating expenses	1,669,332	3,725,720	3,568,764	7,638,924
Interest expense	—	334,201	—	918,576
<b>Total expenses</b>	<b>6,345,771</b>	<b>4,722,341</b>	<b>10,589,162</b>	<b>16,779,907</b>
<b>Net income (loss)</b>	<b>\$ (1,530,699 )</b>	<b>\$ 26,251,132</b>	<b>\$ 4,494,385</b>	<b>\$ 28,070,199</b>
Net income (loss) per common share:				
Basic	\$ (0.06)	\$ 1.00	\$ 0.17	\$ 1.06
Diluted	\$ (0.06)	\$ 1.00	\$ 0.17	\$ 1.06
Weighted-average number of common shares outstanding:				
Basic	26,426,413	26,379,752	26,411,870	26,364,819
Diluted	26,426,413	26,379,752	26,496,992	26,364,819

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net income (loss)</b>	\$ (1,530,699 )	\$ 26,251,132	\$ 4,494,385	\$ 28,070,199
<b>Other comprehensive income</b>				
Change in unrealized fair value of investments	1,510,760	4,274,145	905,457	8,160,403
Less: Reclassification adjustment for net realized gains included in net income (loss)	(8,409 )	(861,972 )	(693,851 )	(1,306,337 )
Less: Net other-than-temporary impairment losses (recognized in earnings)	—	2,811	—	8,996
Portion of impairment losses recognized in other comprehensive income	—	(19,905 )	—	(23,504 )
Other comprehensive income	1,502,351	3,395,079	211,606	6,839,558
<b>Comprehensive income (loss) for the period</b>	<b>\$ (28,348 )</b>	<b>\$ 29,646,211</b>	<b>\$ 4,705,991</b>	<b>\$ 34,909,757</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	3,595	—	(3,595)	—	—	—
Share based compensation	—	—	72,335	—	—	72,335
Net income	—	—	—	—	4,494,385	4,494,385
Non credit component of impairment losses on available-for-sale securities	—	—	—	—	—	—
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	211,606	—	211,606
Balance, June 30, 2011	<u>\$ 2,643,051</u>	<u>\$ 7,010,855</u>	<u>\$ 231,408,323</u>	<u>\$ 11,024,924</u>	<u>\$ (149,506,600)</u>	<u>\$ 102,580,553</u>

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

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income for the period	\$ 4,494,385	\$ 28,070,199
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on sale of investments	(693,851)	(1,306,337)
Net other-than-temporary impairment losses recognized in earnings	—	8,996
Foreign currency (gains) losses on revaluation	(503,464)	968,952
Net unrealized gains on credit derivatives	(1,124,404)	(4,414,237)
Net gain on extinguishment of redeemable preference shares	—	(11,475,000)
Net gain on extinguishment of debt	—	(15,250,000)
Depreciation and amortization	56,759	861,510
Amortization of debt discount	—	89,399
Amortization of bond premium and discount	187,333	312,586
Share based compensation	72,335	303,273
Changes in assets and liabilities:		
Accrued investment income	125,651	270,271
Reinsurance balances receivable	3,840,058	2,203,045
Recoverables on paid losses	12,787,602	(3,806,681)
Deferred policy acquisition costs	5,472,305	3,385,302
Other assets	(370,980)	(403,285)
Losses and loss adjustment expenses	8,024,954	(2,368,459)
Unearned premiums	(15,061,660)	(7,164,715)
Derivative liability	491,110	2,370,469
Accounts payable, accrued liabilities and interest payable	(497,352)	(1,790,583)
<b>Net cash provided by (used in) operating activities</b>	<b>17,300,781</b>	<b>(9,135,295)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(39,130,303)	(56,119,386)
Proceeds from sales of investments	32,886,888	57,424,337
Proceeds on maturities of investments	11,902,648	25,432,937
Net change in restricted cash	(9,914,522)	503,429
Purchases of fixed assets	—	(6,110)
<b>Net cash (used in) provided by investing activities</b>	<b>(4,255,289)</b>	<b>27,235,207</b>
<b>Cash flows from financing activities:</b>		
Repurchase of preference shares	—	(3,825,000)
Repurchase of long-term debt	—	(19,750,000)
Repurchase of noncontrolling interest	—	(1,700,000)
<b>Net cash provided by (used in) financing activities</b>	<b>—</b>	<b>(25,275,000)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>13,045,492</b>	<b>(7,175,088)</b>
Cash and cash equivalents – Beginning of period	5,718,195	9,311,110
<b>Cash and cash equivalents – End of period</b>	<b>\$ 18,763,687</b>	<b>\$ 2,136,022</b>
<b>Supplemental cash flow disclosure:</b>		
Interest paid on long-term debt	\$ —	\$ 1,537,326

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

**Commutations and Settlements:**

Effective April 15, 2011, RAM Reinsurance Company Ltd. (“RAM Re”), the operating subsidiary of the Company, 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 the Settlement Agreement on the Company’s results of operations was to decrease the net change in fair value of credit derivatives by a loss of \$1.4 million.

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 residential mortgage-backed securities (“RMBS”) transactions insured by Assured, including claims relating to reimbursement for breaches of representations and warranties. A number of the Company’s policies assumed from Assured are affected by this settlement. On May 17, 2011 the Company received \$19.9 million from Assured in relation to this settlement and subsequent to June 30, 2011, has received an additional \$1.3 million. The Company anticipates it will receive the remaining payments (totaling approximately \$4.8 million) by the middle of 2012.

Effective June 30, 2011, RAM Re entered into a Termination and Release Agreement with one of its ceding companies (the “Cedent”). The agreement provided, among other things, for RAM Re to make a \$0.7 million payment to terminate the reinsurance with respect to several policies previously assumed from the Cedent, with par in-force of \$300.4 million, and to mutually terminate all liabilities and obligations with respect to that reinsurance. The effect of the termination on the Company’s results of operations was to (i) reduce gross written premiums and unearned premiums by \$6.9 million, resulting in no impact on earned premiums, and (ii) decrease losses and loss adjustment expenses by \$0.5 million, resulting in an overall gain to net income at the time of termination of \$0.5 million.

**Subsequent Events:**

Reverse Stock Split

On September 28, 2011, at the Annual General Meeting of shareholders, the Company’s shareholders approved a reverse stock split of RAM Holding’s issued common shares (the “Consolidation”). The shareholders approved that RAM Holdings’ issued common shares of par value US\$0.10 each would be consolidated into common shares of par value US\$1.00 each on a 1 for 10 basis. The Board of Directors was granted the authority, but not the obligation, in its sole discretion and without any further action on the part of the shareholders, to effect the Consolidation at any time it believes to be most advantageous to the Company and its shareholders, or otherwise to abandon it and effect no consolidation if it determines that such action is not in the best interests of the Company and its shareholders. After the Consolidation, a portion of the RAM Holdings additional paid in capital account will be capitalized in order to issue fractions of common shares to any common shareholder who holds a fraction of a common share as a result of the Consolidation in order to round up any fractional shares to the next whole share.

Net income/loss per share will be increased as a result of the Consolidation because there will be fewer common shares outstanding, although the Consolidation will have no effect on the Company’s aggregate earnings. Subsequent to the Consolidation, the issued shares impacted by the Consolidation will have a par value of \$1.00 per share. The remaining unissued shares which are not subject to the Consolidation will continue to have a par value of \$0.10 per share.



The following table presents the Company's net income/loss per share had the Consolidation been effective as of June 30, 2011:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net income (loss)</b>	<b>\$ (1,530,699 )</b>	<b>\$ 26,251,132</b>	<b>\$ 4,494,385</b>	<b>\$ 28,070,199</b>
<b>Net income (loss) per common share:</b>				
Basic	\$ (0.58)	\$ 9.95	\$ 1.70	\$ 10.65
Diluted	\$ (0.58)	\$ 9.95	\$ 1.70	\$ 10.65
Weighted-average number of common shares outstanding:				
Basic <sup>(1)</sup>	2,642,642	2,637,975	2,641,187	2,636,482
Diluted <sup>(1)</sup>	2,642,642	2,637,975	2,649,699	2,636,482

<sup>(1)</sup> Assumes that basic and diluted shares are rounded up to the next whole share.

Appropriate adjustments will be made to the shareholders' equity account on the Company's balance sheet, or the notes to the Company's financial statements, to reflect the changes in the number of issued shares and the par value, once the Consolidation has been effected at the discretion of the Board of Directors. The Company does not anticipate that any other accounting consequences, including material changes to the amount of stock-based compensation expense to be recognized in any period, will arise as a result of the Consolidation.

#### Name Change

RAM Re has discontinued writing financial guaranty reinsurance and is currently considering writing new lines of business, specifically short-tail, non-catastrophe, property/casualty reinsurance. The Board of Directors proposed that, in connection with RAM Re's new business focus and to reflect the departure from the financial guaranty business line, that the shareholders consider giving approval at the Annual General Meeting of shareholders to changing the names of the companies in the RAM group of companies. On September 28, 2011 at the Annual General Meeting of shareholders, the shareholders approved that the name of RAM Holdings be changed from RAM Holdings Ltd. to American Overseas Group Limited. and that the name of RAM Reinsurance Company Ltd. be changed to American Overseas Reinsurance Company Limited. The Board of Directors of RAM Holdings is authorized, in its sole discretion, to determine whether it is in RAM Holdings' best interest to proceed with and effect the change of name and, if so, to determine the timing of such change, subject to such change being made no later than December 31, 2011. On September 29, 2011, the RAM Holdings Board of Directors approved the implementation of the change of name and that it be effected no later than December 31, 2011.

#### Settlement Agreement

Effective September 14, 2011, RAM Re entered into a Settlement Agreement (the "Agreement") with one of its ceding companies. The Agreement provided, among other things, for RAM Re to make a \$1.2 million commutation payment to terminate the reinsurance with respect to certain policies previously assumed, with par in-force of \$26.2 million (the "Released Risks"). In return, each party is released from all liabilities and obligations with respect to the Released Risks. In addition the Agreement includes agreements regarding certain retained risk that will continue to be covered under the existing treaty. The effect of the Agreement will be recorded in the third quarter 2011.

## 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 June 30, 2011, were 766,742 shares.

## Equity Compensation of Executive Officers and Directors

The table below sets forth the aggregate number of shares underlying option awards outstanding at June 30, 2011, for each director who has received option awards

Name	Shares Underlying Options at June 30, 2011 (#) (Outstanding)	Shares Underlying Options at June 30, 2011 (#) (Exercisable)	RSU's: Number of Shares that Have Not Vested (#)
Edward F. Bader .....	66,010	28,300	34,706
David L. Boyle .....	63,410	25,700	34,706
Clement S. Dwyer .....	45,210	7,500	34,706
Steven J. Tynan .....	45,210	7,500	34,706

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

The following table shows equity awards granted to executive officers of the Company outstanding at June 30, 2011:

Name	Shares Underlying Options at June 30, 2011 (#) (Outstanding)	Shares Underlying Options at June 30, 2011 (#) (Exercisable)	RSUs: Number of Shares that Have Not Vested (#)
David K. Steel	451,113	386,278	13,200

Options granted prior to May 2006 were awarded under the Company's 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 Company's 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 Company's 2001 Stock Option Plan. Options granted beginning in May 2006 were awarded under the Company's 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 six months ended June 30, 2011.

## Director Changes

David L. Boyle did not stand for re-election to the Board of Directors of the Company at the Annual General Meeting of shareholders held on September 28, 2011, and Debra J Roberts was duly elected to the Board of Directors of the Company on that date.

## Amendments to the Bye-Laws of the Company

At the Annual General Meeting of shareholders held on September 28, 2011, the shareholders approved certain amendments to Bye-Laws 15 and 20 of the Company's Bye-Laws, which are fully described in the RAM Holdings Proxy Statement dated Aug 19, 2011.

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

RAM Re House  
46 Reid Street  
Hamilton  
HM 12 Bermuda  
441-296-6501  
www.ramre.com

**Investor Information**

Information about RAM Holdings Ltd., including all quarterly earnings releases and reports, can be accessed via the Company's 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)

Mailing Address:

BNY Mellon Shareowner Services  
480 Washington Boulevard  
Jersey City, New Jersey 07310-1900  
USA

Web Address: <http://www.bnymellon.com/shareowner/isd>

**Independent Registered Auditors**

Deloitte & Touche Ltd.