RAM Holdings Ltd. Announces Second Quarter 2011 Net Loss Available to Common Shareholders of $1.5 Million

HAMILTON, Bermuda--(BUSINESS WIRE)-- RAM Holdings Ltd. (BSX:RAMR) (Pink Sheets: RAMR.PK) ("RAM" or the "Company") today reported second quarter 2011 net loss available to common shareholders of $1.5 million, or a net loss of $0.06 per diluted share. This compares to net income of $26.3 million, or net income of $1.00 per diluted share, for the second quarter 2010. Net income available to common shareholders for the first six months of 2011 was $4.5 million, or net income of $0.17 per diluted share, compared to net income of $28.1 million, or $1.06 per diluted share, for the first six months of 2010.

Commenting on the financial results, RAM's Chief Executive Officer, David Steel, noted that, "Our second quarter net loss was largely the result of our strengthening our reserves on our financial guaranty reinsurance exposures, particularly on residential mortgage backed securities, and a $1.4 million loss on credit derivative policies commuted in the period. The commutation of the credit derivative policies was viewed as desirable in order to settle an arbitration and avoid potentially higher losses."

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.

Summary of Operating Results

Net (loss) income for the quarter and six months ended June 30, 2011, was $(1.5) million and $4.5 million, respectively. The Company's net income is calculated in conformity with U.S. generally accepted accounting principles ("GAAP"). RAM also provides information regarding its operating income (loss), a non-GAAP financial measure, because the Company's management and Board of Directors, as well as many research analysts and investors, also evaluate financial performance on the basis of operating income (loss), which excludes non-operating items such as realized investment gains or losses, unrealized gains or losses on credit derivatives and foreign currency gains or losses.

During the second quarter of 2011, the operating loss was $2.5 million, or $0.10 per diluted share, compared to operating income of $2.2 million, or $0.08 per diluted share, in the second quarter 2010. Operating income for the first six months of 2011 was $2.3 million, or $0.09 per diluted share, compared to an operating loss of $1.6 million, or $0.06 per diluted share, for the first six months of 2010.

Earned premiums in the second quarter 2011, of $3.6 million, were 14% lower than the $4.2 million earned in the second quarter 2010. After eliminating accelerated premiums from refundings of $0.1 million from total earned premiums, core earned premiums in the second quarter 2011 were $3.5 million; this was $0.3 million, or 9%, higher than the comparable 2010 period, which included accelerated premiums from refundings of $1.0 million. Earned premiums for the first six months of 2011 were $8.0 million, including accelerated premiums from refundings of $1.3 million. Earned premiums for the first six months of 2011 were 1% higher than the $7.9 million of earned premiums for the first six months of 2010, which included accelerated premiums from refundings of $1.2 million. After eliminating accelerated premiums from refundings, earned premiums for the first six months of 2011 and 2010, were $6.7 million in both periods.

Net change in fair value of credit derivatives totaled a loss of $1.4 million in the second quarter 2011, which was $14.4 million less than the $13.0 million gain in the second quarter of 2010. Net change in fair value of credit derivatives for the second quarters of 2011 and 2010 were comprised of $(1.5) million and $1.0 million of realized (losses) gains, respectively, and $0.1 million and $12.0 million of unrealized gains on derivatives, respectively. The realized loss in the second quarter 2011 was primarily due to the $2.3 million payment on the Settlement Agreement discussed above. The net unrealized gain in the second quarter 2011 was primarily attributable to (i) the increase in the adjustment for RAM's own non-performance risk of $5.4 million, partially offset by (ii) the increase in gross unrealized losses on credit derivative policies of $5.3 million. The increase in gross unrealized losses on credit derivative policies was primarily due to deterioration in pricing on RMBS written in credit derivative form. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 820 - "Fair Value Measurements and Disclosures" ("ASC 820"), RAM calculates an adjustment for its own non-performance risk. The effect of the ASC 820 requirement on RAM's derivative liabilities on the balance sheet was a reduction of approximately $75.0 million at June 30, 2011. Net change in fair value of credit derivatives for the six months to June 30, 2011 and 2010 were $1.1 million and $4.0 million, respectively.

Net investment income for the second quarter 2011 was $2.4 million, 14% below the $2.8 million recorded in the second quarter 2010. For the six months to June 30, 2011, net investment income was $4.7 million, 20% below the $5.9 million recorded in the first six months of 2010. The decrease in investment income in the second quarter and six months to June 30, 2011, was primarily due to a decrease in the book yield on the portfolio from 3.7% as of June 30, 2010 to 3.2% as of June 30, 2011. Investment income for the six months ended June 30, 2011, also decreased since the comparable 2010 period as a result of the decline in amounts of total cash and invested assets for most of that period. The decrease in the investment portfolio was as a result of commutation payments during 2010 and 2011 of $13.3 million. However, cash and invested assets as of June 30, 2011 were comparable to those as of June 30, 2010, due to the receipt of $19.9 million from the Assured Settlement with the Bank of America Corporation as discussed above.

Realized gains on investments for the second quarter 2011 were immaterial compared to $0.9 million in realized gains for the same period in 2010. For the first six months of 2011 and 2010, realized gains on investments were $0.7 million and $1.3 million, respectively.

During the second quarter and first six months of 2010, net gains on extinguishment of debt of $10.8 million and $15.3 million, respectively, were recognized on the repurchase of the remaining portion of the Company's unsecured senior notes (the "Senior Notes"). Gains of $11.5 million were recognized on the repurchase of 15,300 of the Company's Series A preference shares (the "Series A Preference Shares") during the first six months of 2010. During the first six months of 2011 there were no such repurchase activities.

Losses and loss adjustment expenses were $3.1 million in the second quarter 2011, contributing to a loss ratio of 86%, compared to losses and loss adjustment expenses of ($1.2) million and a loss ratio of (29)% for the comparable 2010 period. The second quarter 2011 loss ratio was primarily a result of adverse development on RMBS policies. For the six months to June 30, 2011, losses and loss adjustment expenses were $3.6 million, contributing to a loss ratio of 44%, compared to losses of $4.7 million and a loss ratio of 60% for the comparable period in 2010. The improvement in the six month 2011 loss ratio was attributable to several factors including improved delinquency experience and an increase in representation and warranties repurchase credit on RAM's exposure to insured RMBS transactions since the comparable 2010 period.

Acquisition expenses were $1.6 million in the second quarter of 2011 compared to $1.9 million for the comparable 2010 period. Acquisition expenses are closely related to earned premiums, and the decrease in acquisition expenses for the second quarter 2011 as compared to the comparable 2010 period was primarily due to the decrease in earned premiums in the period. Acquisition expenses for the first six months of 2011 and 2010, were $3.5 million for both periods, consistent with the comparable earned premiums for those periods.

Second quarter 2011 operating expenses of $1.7 million were $2.0 million, or 54%, below the level in the second quarter of 2010. For the first six months of 2011 and 2010, operating expenses were $3.6 million and $7.6 million, respectively. The decrease in operating expenses for 2011 as compared to 2010 was primarily due to (i) reductions in staff made during May 2010, (ii) a decline in legal fees and (iii) non-recurring expenses in 2010 relating to the repurchase of a portion of the Company's Series A Preference Shares and a portion of the Class B preference shares (the "Class B Preference Shares") of RAM Re.

Balance Sheet

Total assets of $405.0 million at June 30, 2011, were $3.4 million, or 1%, below the level at December 31, 2010. This decrease was primarily related to the reduction in deferred policy acquisition costs, reinsurance balances receivable and recoverable on paid losses due to the run off of RAM's insured portfolio and the commutations and settlements discussed above. Shareholders' equity of $95.6 million was $4.8 million, or 5%, above the level at December 31, 2010, primarily due to net income earned in the first six months of 2011. Book value per share was $3.62, an increase of 5% from year-end 2010. Operating book value and adjusted operating book value per share, both of which are non-GAAP financial measures, were $5.77 and $8.78, respectively, at June 30, 2011, an increase (decrease) of 2% and (6)%, respectively, from year-end 2010.

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 and book value 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 or book value. 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:

(dollars in thousands except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss)	**$ (1,531)**	**$ 26,251**	**$ 4,494**	**$ 28,070**

Net income (loss) per common share:

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 (1)	2,642,642	2,637,975	2,641,187	2,636,482
Diluted (1)	2,642,642	2,637,975	2,649,699	2,636,482

(1) 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.

Forward-Looking Statements

This release contains statements that may be considered "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, the Company's expectations respecting the volatility of its insured portfolio, losses, loss reserves and loss development, the adequacy and availability of its liquidity and capital resources, its current run off strategy, its consideration of other reinsurance businesses, and its expense reduction measures. These statements are based on current expectations and the current views of the economic and operating environment and are not guarantees of future performance. A number of risks and uncertainties, including economic competitive conditions, could cause actual results to differ materially from those projected in forward-looking statements. The Company's actual results could differ materially from those expressed or implied in the forward-looking statements. Among the factors that could cause actual results to differ materially are: (i) RAM's ability to execute its business strategy, including with respect to any new reinsurance businesses; (ii) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors; (iii) the loss of significant customers with which RAM Re has a concentration of its reinsurance in force; (iv) legislative and regulatory developments; (v) changes in regulation or tax laws applicable to RAM or its customers; (vi) more severe or more frequent losses associated with RAM Re's insured portfolio; (vii) losses on credit derivatives; (viii) changes in RAM's accounting policies and procedures that impact RAM's reported financial results; (ix) the effects of ongoing and future litigation and (x) other risks and uncertainties that have not been identified at this time. RAM undertakes no obligation to revise or update any forward-looking statement to reflect changes in conditions, events, or expectations, except as required by law.

Explanation of Non-GAAP Financial Measures

RAM believes that the following non-GAAP financial measures included in this release serve to supplement GAAP information and are meaningful to investors.

Operating income (loss): The Company believes operating income (loss) is a useful measure because it measures income from operations, unaffected by non-operating items such as realized investment gains or losses, unrealized gains or losses on credit derivatives and foreign currency gains or losses. Operating income (loss) is typically used by research analysts and rating agencies in their analysis of the Company.

Operating Book Value per share and Adjusted Operating Book Value per share: RAM believes the presentation of operating and adjusted operating book value per share to be useful because they give a measure of the value of RAM, excluding non-operating items such as unrealized gains and losses on credit derivatives. The Company derives operating book value by beginning with GAAP book value and adding back the unrealized gain or loss portion of its derivative liability, excluding the impact of credit impairments. Adjusted operating book value per share begins with operating book value as calculated above and then adding or subtracting the value of:

a. GAAP unearned premium reserves (on policies classified as financial guarantee);

b. Deferred acquisition costs;

c. Unearned premiums reserves and the present value of estimated future installment premiums net of ceding commissions on credit derivative policies (discounted at 1.76% at June 30, 2011, and 1.26% at December 31, 2010);

d. Unrealized appreciation or depreciation of investments; and

e. Noncontrolling interest in subsidiary.

Credit Impairments on Insured Credit Default Swap ("CDS") Contracts: Management measures and monitors credit impairments on RAM Re's credit derivatives, which are expected to be paid out over the term of the credit default swap policies. The credit impairments are a non-GAAP financial measure reported as management believes this information to be useful to analysts and investors to review the results of our entire portfolio of policies. Management considers credit derivative policies as a normal extension of RAM Re's financial guarantee business and reinsurance in substance.

RAM Holdings Ltd. is a Bermuda-based holding company. Its operating subsidiary, RAM Reinsurance Company Ltd., provides financial guaranty reinsurance for U.S. and international public finance and structured finance transactions. More information can be found at www.ramre.com.

RAM Holdings Ltd.
Consolidated Balance Sheets
(unaudited)
As at June 30, 2011 and December 31, 2010
(dollars in thousands)

	June 30, 2011	December 31, 2010
Assets		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized Cost: $275,654 and $280,807)	$ 286,679	$ 291,620
Cash and cash equivalents	18,764	5,718
Restricted cash	26,637	16,722
Accrued investment income	1,692	1,818
Reinsurance balances receivable, net	14,323	17,659
Recoverables on paid losses	6,444	19,231
Deferred policy acquisition costs	49,398	54,870
Deferred expenses	477	521
Other assets	550	193
Total Assets	$ 404,964	$ 408,352
Liabilities and Equity		
Liabilities:		
Loss and loss expense reserve	$ 60,437	$ 52,412
Unearned premiums	118,604	133,666
Accounts payable and accrued liabilities	751	1,248
Derivative liabilities	62,892	63,525
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	59,700
Total Liabilities	302,384	310,551
Shareholders' Equity:		
Common shares	2,643	2,639
Additional paid-in capital	231,408	231,339
Accumulated other comprehensive income	11,025	10,813
Retained deficit	(149,507)	(154,001)
Total Shareholders' Equity	95,569	90,790
Noncontrolling interest - Class B preference shares of subsidiary	7,011	7,011
Total Equity	102,580	97,801
Total Liabilities and Equity	$ 404,964	$ 408,352

RAM Holdings Ltd.
Consolidated Statements of Operations
(unaudited)
For the three and six months ended June 30, 2011 and 2010

(dollars in thousands except share and per share amounts)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues				
Net premiums earned	$ 3,612	$ 4,232	$ 8,024	$ 7,920
Change in fair value of credit derivatives				
Realized gains (losses) and other settlements	(1,473)	1,023	(19)	(446)
Unrealized gains (losses)	118	11,966	1,124	4,414
Net change in fair value of credit derivatives	(1,355)	12,989	1,105	3,968
Net investment income	2,350	2,760	4,748	5,919
Net realized gains on sale of investments	8	862	694	1,306
Total other-than-temporary impairment losses	-	(23)	-	(32)
Portion of impairment losses recognized in other comprehensive income (loss)	-	20	-	23
Net other-than-temporary impairment losses (recognized in earnings)	-	(3)	-	(9)
Foreign currency gains	200	(617)	512	(980)
Net gain on extinguishment of redeemable Series A preference shares	-	-	-	11,475
Net gain on extinguishment of long-term debt	-	10,750	-	15,250
Total revenues	**4,815**	**30,973**	**15,083**	**44,849**
Expenses				
Losses and loss adjustment expenses	3,121	(1,235)	3,564	4,731
Acquisition expenses	1,556	1,897	3,456	3,491
Operating expenses	1,669	3,726	3,569	7,639
Interest expense	-	334	-	918
Total expenses	**6,346**	**4,722**	**10,589**	**16,779**
Net income (loss)	**$ (1,531)**	**$ 26,251**	**$ 4,494**	**$ 28,070**
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

Reconciliation of net income (loss) to operating income (loss):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating Income (Loss)				
Net income (loss) available to common shareholders	$ (1,531)	$ 26,251	$ 4,494	$ 28,070
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(8)	(859)	(694)	(1,297)
Less: Unrealized (gains) losses on credit derivatives	(118)	(11,966)	(1,124)	(4,414)
Add back: credit impairment on derivatives	(666)	(1,129)	156	1,835
Less: Foreign currency (gains)	(200)	617	(512)	980
Less: Gains on debt and preference shares	-	(10,750)	-	(26,725)
Operating Income (Loss)	$ (2,523)	$ 2,164	$ 2,320	$ (1,551)
Net income (loss) per diluted share	$ (0.06)	$ 1.00	$ 0.17	$ 1.06
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(0.00)	(0.03)	(0.03)	(0.05)
Less: Unrealized (gains) losses on credit derivatives	(0.00)	(0.45)	(0.04)	(0.17)
Add back: credit impairment on derivatives	(0.03)	(0.04)	0.01	0.07
Less: Foreign currency (gains)	(0.01)	0.02	(0.02)	0.04

Less: Gains on debt and preference shares	0.00	(0.41)	0.00	(1.01)
Operating income (loss) per diluted share	$ (0.10)	$ 0.08	$ 0.09	$ (0.06)

Reconciliation of book value to operating book value and adjusted operating book value:

	As at June 30, 2011	As at Dec 31, 2010
Shares outstanding	26,431	26,395
Operating Book Value		
Shareholders' Equity (Book Value)	95,569	90,790
Derivative liability [1]	62,352	63,476
Add back credit impairments on derivatives	(5,515)	(5,670)
Operating Book Value Per Share	5.77	5.63
Noncontrolling interest	7,011	7,011
Unearned premiums [2]	119,714	135,070
Deferred acquisition costs	(49,398)	(54,870)
Present value of installment premiums [3]	13,315	21,011
Unrealized gains on investments	(11,025)	(10,813)
Adjusted Operating Book Value Per Share	$ 8.78	$ 9.32

(1) Represents only the unrealized gains/losses portion of the derivative liability.

(2) Includes unearned premium balances on financial guaranty and credit derivative policies. The unearned premiums on financial guaranty policies include the present value of future installment premiums, net of ceding commissions.

(3) Estimated present value of future installments, net of ceding commissions, on policies written in credit derivative form only. At June 30, 2011 and December 31, 2010, the discount rate was 1.76% and 1.26%, respectively.

RAM has posted its second quarter 2011 financial results to its website at www.ramre.com under "Investor Information". If you are a shareholder of RAM Holdings Ltd. and wish to receive a hard copy of the financial statements by mail, please contact:

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