RAM Holdings Ltd. Announces First Quarter 2011 Net Income Available to Common Shareholders of $6.0 Million

HAMILTON, Bermuda--(BUSINESS WIRE)-- RAM Holdings Ltd. (BSX:RAMR) (Pink Sheets: RAMR.PK) ("RAM" or the "Company") today reported first quarter 2011 net income available to common shareholders of $6.0 million, or net income of $0.23 per diluted share. This compares to net income of $1.8 million, or net income of $0.07 per diluted share, for the first quarter 2010.

Commenting on the financial results, RAM's Chief Executive Officer, David Steel, noted that, "Our first quarter net income was largely driven by the continued run off of our in-force portfolio of business, the increase in the realized and unrealized gains on our reinsured credit derivative portfolio, moderate loss development on our financial guaranty reinsurance exposures and the successful operating expense reduction efforts initiated over the last two years."

Summary of Operating Results

Net income was $6.0 million for the quarter ended March 31, 2011.

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 first quarter of 2011, operating income was $4.8 million, or $0.18 per diluted share, compared to an operating loss of $3.7 million, or a loss of $0.14 per diluted share, in the first quarter 2010.

Earned premiums in the first quarter 2011 of $4.4 million were 19% higher than the $3.7 million earned in the first quarter 2010. By eliminating accelerated premiums from refundings of $1.3 million from total earned premiums, core earned premiums in the first quarter 2011 were $3.1 million; this was 11% lower than the comparable 2010 period, which included accelerated premiums from refundings of $0.2 million. The decline in the first quarter 2011 earned premiums after refundings reflects the general run off of RAM's business.

Net change in fair value of credit derivatives totaled a gain of $2.5 million in the first quarter 2011, which was $11.5 million more than the $9.0 million loss in the first quarter of 2010. Net change in fair value of credit derivatives for the first quarters of 2011 and 2010 were comprised of $1.0 million and $(7.5) million of unrealized gains (losses) on derivatives, respectively, and $1.5 million and $(1.5) million of realized gains (losses), respectively. The net unrealized gain in the first quarter 2011 was primarily attributable to: (i) the decrease in gross unrealized losses on credit derivative policies of $2.7 million, partially offset by (ii) the decrease in the adjustment for RAM's own non-performance risk of $(1.7) million. The decrease in gross unrealized losses on credit derivative policies was primarily due to improvements in pricing across the majority of the portfolio. 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 $69.6 million at March 31, 2011.

Net investment income for the first quarter 2011 was $2.4 million, 25% below the $3.2 million recorded in the first quarter 2010. The decrease in investment income in the first quarter 2011 was primarily the result of a decrease in cash and invested assets of $35.6 million during 2010 due to payments associated with commutations and the repurchases of the Company's unsecured senior notes (the "Notes"), a portion of the Company's Series A preference shares ("Series A Preference Shares") and a portion of the Class B preference shares ("Class B Preference Shares") of RAM Reinsurance Company Ltd. ("RAM Re"), the operating subsidiary of the Company. The decrease in investment income was also due to a decline in the book yield from 3.7% as of March 31, 2010, to 3.2% as of March 31, 2011.

Realized gains on investments for the first quarter 2011 were $0.7 million compared to $0.4 million in realized gains for the same period in 2010.

A net gain on extinguishment of debt of $4.5 million was recognized on the repurchase of a portion of the Company's Notes during the first quarter 2010. Gains of $11.5 million were recognized on the repurchase of 15,300 of the Company's Series A

Preference Shares during the first quarter 2010. During the quarter ended March 31, 2011, there were no repurchase activities.

Losses and loss adjustment expenses were $0.4 million in the first quarter 2011, contributing to a loss ratio of 10%, compared to losses and loss adjustment expenses of $6.0 million and a loss ratio of 162% for the comparable 2010 period. The improvement in the 2011 loss ratio was attributable to an increase in representations and warranties repurchase credit on RAM's exposure to insured RMBS transactions as a result of the Assured Settlement described below. See "Subsequent Events" for further details of this settlement.

Acquisition expenses were $1.9 million in the first quarter of 2011 relative to $1.6 million for the comparable 2010 period. Acquisition expenses are closely related to earned premiums, and the increase in acquisition expenses for the first quarter 2011 as compared to the comparable 2010 period was also due to the increase in earned premiums in the period.

First quarter 2011 operating expenses of $1.9 million were $2.0 million, or 51%, below the level in the first quarter of 2010. The decrease in operating expenses for 2011 as compared to 2010 was primarily due to (i) reductions in staff made during May 2010 and (ii) expenses in 2010 relating to the repurchase of a portion of the Company's Series A Preference Shares and Class B Preference Shares of RAM Re.

Balance Sheet

Total assets of $407.5 million at March 31, 2011 were $0.9 million, or 0.2%, below the level at December 31, 2010. This decrease was primarily related to the reduction in deferred policy acquisition costs due to the run off of RAM's insured portfolio and was offset by the increase in RAM's recoverable on paid losses. 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 quarter 2011 offset by the decline in unrealized gains on investments. 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 $5.80 and $9.28, respectively at March 31, 2011, an increase and decrease of 3% and (0.4)%, respectively, from year-end 2010.

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.

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 expense reduction measures and the timing of its receipt of the remaining payments under the Assured Settlement. 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; (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 2.24% at March 31, 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 RAM's 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 will post its first 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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RAM Holdings Ltd.
Consolidated Balance Sheets
(unaudited)
As at March 31, 2011 and December 31, 2010
(dollars in thousands)

	March 31, 2011	December 31, 2010
Assets		

Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized Cost: $262,877 and $280,807)	$ 272,399	$ 291,620
Cash and cash equivalents	31,402	5,718
Restricted cash	10,131	16,722
Accrued investment income	1,760	1,818
Reinsurance balances receivable, net	16,558	17,659
Recoverables on paid losses	20,930	19,231
Deferred policy acquisition costs	53,066	54,870
Deferred expenses	499	521
Other assets	777	193
Total Assets	$ 407,522	$ 408,352

Liabilities and Equity

Liabilities:		
Loss and loss expense reserve	$ 52,148	$ 52,412
Unearned premiums	129,331	133,666
Accounts payable and accrued liabilities	1,324	1,248
Derivative liabilities	62,440	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 March 31, 2011 and December 31, 2010, respectively)	59,700	59,700
Total Liabilities	304,943	310,551
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 at December 31, 2010, respectively)	2,640	2,639
Additional paid-in capital	231,382	231,339
Accumulated other comprehensive income	9,522	10,813
Retained deficit	(147,976)	(154,001)
Total Shareholders' Equity	95,568	90,790
Noncontrolling interest - Class B preference shares of subsidiary	7,011	7,011
Total Equity	102,579	97,801
Total Liabilities and Equity	$ 407,522	$ 408,352

RAM Holdings Ltd.

Consolidated Statements of Operations

(unaudited)

For the three months ended March 31, 2011 and 2010

(dollars in thousands except share and per share amounts)

	Three Months Ended March 31,	
	2011	**2010**
Revenues		

	2011	2010
Net premiums earned	$ 4,413	$ 3,688
Change in fair value of credit derivatives		
Realized gains (losses) and other settlements	1,455	(1,469)
Unrealized gains (losses)	1,006	(7,552)
Net change in fair value of credit derivatives	2,461	(9,021)
Net investment income	2,398	3,159
Net realized gains on sale of investments	685	444
Total other-than-temporary impairment losses	-	(10)
Portion of impairment losses recognized in other comprehensive income (loss)	-	4
Net other-than-temporary impairment losses (recognized in earnings)	-	(6)
Foreign currency gains (losses)	311	(362)
Net gain on extinguishment of redeemable Series A preference shares	-	11,475
Net gain on extinguishment of long-term debt	-	4,500
Total revenues	**10,268**	**13,877**
Expenses		
Losses and loss adjustment expenses	444	5,967
Acquisition expenses	1,900	1,594
Operating expenses	1,899	3,913
Interest expense	-	584
Total expenses	**4,243**	**12,058**
Net income before noncontrolling interest	**$ 6,025**	**$ 1,819**
Noncontrolling interest - dividends on Class B preference shares of subsidiary	-	-
Net income available to common shareholders	**$ 6,025**	**$ 1,819**
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

Reconciliation of net income to operating income (loss):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating Income (Loss)		
Net income available to common shareholders	$ 6,025	$ 1,819
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(685)	(438)
Less: Unrealized (gains) losses on credit derivatives	(1,006)	7,552

Add back: credit impairment on derivatives	821	2,964
Less: Foreign currency (gains) losses	(311)	362
Less: Gains on debt, preferred shares and other financial instruments	-	(15,975)
Operating Income (Loss)	$ 4,844	$ (3,716)
Net income per diluted share	$ 0.23	$ 0.07
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(0.03)	(0.02)
Less: Unrealized (gains) losses on credit derivatives	(0.04)	0.28
Add back: credit impairment on derivatives	0.03	0.11
Less: Foreign currency (gains) losses	(0.01)	0.01
Less: Gains on debt, preferred shares and other financial instruments	0.00	(0.60)
Operating income (loss) per diluted share	$ 0.18	$ (0.14)

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

	As at March 31, 2011	As at Dec 31, 2010
Shares outstanding	26,402	26,395
Operating Book Value		
Shareholders' Equity (Book Value)	95,568	90,790
Derivative liability (1)	62,470	63,476
Add back credit impairments on derivatives	(4,849)	(5,670)
Operating Book Value Per Share	5.80	5.63
Noncontrolling interest	7,011	7,011
Unearned premiums (2)	130,660	135,070
Deferred acquisition costs	(53,066)	(54,870)
Present value of installment premiums (3)	16,714	21,011
Unrealized gains on investments	(9,522)	(10,813)
Adjusted Operating Book Value Per Share	$ 9.28	$ 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 includes the present value of future installment premiums.

(3)Estimated present value of future installments, net of ceding commissions, on policies written in credit derivative form only. At March 31, 2011 and December 31, 2010, the discount rate was 2.24% and 1.26%, respectively.

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Source: RAM Holdings Ltd.

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