

## RAM Reinsurance Co. Ltd.

### *Rationale*

The 'AAA' financial strength and financial enhancement ratings on RAM Reinsurance Co. Ltd. (RAM Re) reflect the company's sound capital position, historically well-managed reinsurance strategy, and strong reinsurance relationships. The rating also reflects Standard & Poor's Ratings Services' expectation that RAM Re will continue to take proactive steps toward improving its historically below-average ROE, along with the assumption that that the company will successfully manage the risk of adverse selection. The company's capital adequacy margin of safety was in the range of 1.7x-1.8x, which exceeds Standard & Poor's 'AAA' requirement of 1.25x. RAM Re has added \$130 million to its capital resources in 2006 with a new \$40 million bank soft-capital facility, \$16 million from the proceeds of an IPO completed in early May, and \$74 million from the proceeds from hybrid equity issued by the parent. Management's well-executed capital-raising efforts that began in 2003 have enabled the company to further enhance its business position by increasing its treaty participations, adding new treaty partners, taking advantage of facultative cessions, and by increasing the capacity of the company to insure larger transactions. With regard to underwriting, management has selectively assumed business through the years and has generally done a good job protecting the company from adverse selection issues that can arise in the financial guarantee industry. However, new business acquired during 2006 did exhibit adverse selection on a risk-adjusted pricing basis in all business segments except U.S. public finance. Prior to 2006, RAM Re earned below-average returns operating under a variety of impediments, including higher expenses in anticipation of, and to execute, an IPO; extraordinary legal and personnel expenses; regular capital infusions; and, more recently, growing losses and loss-reserve accruals. Particularly now that RAM Re has a significant component of public ownership, it needs to show continued progress toward producing competitive shareholder returns. Results in 2006 were much improved even after allowing for unusual, nonrecurring

### *Financial Strength Rating*

*Local Currency*  
AAA/Negative/—

### *Primary Credit Analysts:*

Dick P Smith  
New York  
(1) 212-438-2095  
dick\_smith@  
standardandpoors.com

### *Secondary Credit Analysts:*

David Veno  
New York  
(1) 212-438-2108  
david\_veno@  
standardandpoors.com

*RatingsDirect*  
*Publication Date*

June 14, 2007

favorable loss reserve adjustments. Management's plans for the company in 2007 and beyond include strategies designed to fundamentally improve its earnings and ROE.

### ***Outlook***

The negative outlook reflects concerns relating to RAM Re's historically below-average earnings and ROE, coupled with uncertainty as to whether the company can show significant fundamental improvement in the near to intermediate term. Results in 2006 were significantly improved, but were aided by unusual and unsustainable loss reserve adjustments. RAM Re now needs to demonstrate that revised strategies for lasting improvement can achieve desired results. Specifically, Standard & Poor's is looking for improvement in ROE, adjusted to exclude the effects of unusual loss reserve activity, to levels more consistent with ROEs attained by industry peers, and in expense ratios that focus on operating expenses, to support the necessary earnings and ROE improvement. In addition, since RAM Re exhibited a vulnerability to adverse selection in 2006, its risk-adjusted pricing index results for 2007 will be analyzed for evidence of continued adverse selection. If RAM Re fails to demonstrate meaningful improvement in the financial metrics or experiences significant adverse selection, the 'AAA' ratings will be lowered.

### ***Management And Corporate Strategy***

RAM Re's strategy centers on maximizing market opportunities as the only independent 'AAA' rated financial guarantee reinsurance company. To this end, the company has no plans to diversify its business model, but will focus on its core business and increasing its treaty participation with the 'AAA' primary financial guarantors. RAM Re has had treaties with Ambac Assurance Corp. (Ambac), MBIA Insurance Corp. (MBIA), and Financial Security Assurance Inc. (FSA) for a number of years. In early 2006, RAM Re added a treaty with XL Financial Assurance Ltd. (XLFA) retroactive to the first of the year, and in April 2007 announced a treaty with Financial Guaranty Insurance Co. (FGIC). Over the past few years the company has been successful in increasing its treaty participation rates with each of its major ceding companies. These increases have been facilitated by RAM Re making significant increases to its capital base through the sale of both new equity and debt. RAM Re has also been aided by a declining availability of high-quality financial guarantee reinsurance. Facultative business is conducted both with the seasoned 'AAA' rated primaries and with the newer 'AAA' rated primaries. Par written from Assured Guaranty Corp. (Assured), XL Capital Assurance Inc. (XLCA) via its reinsurance affiliate XLFA, and the CIFG Companies represented 21.9% of total 2006 par written, up from 4.3% in 2005. The XLCA business included treaty sessions in 2006. Facultative business is pursued to diversify sources of business and to fill in treaty gaps.

RAM Re is a Bermuda-based, wholly owned subsidiary of RAM Holdings Ltd., whose largest shareholder is The PMI Group Inc. (23.7%). There are no other subsidiaries or holding companies. The PMI Group Inc. (A/Stable/—) is a holding company that, through its subsidiaries, provides mortgage insurance, title insurance, financial guarantee insurance, and various services and products for the home mortgage industry. Other major institutional shareholders include:

- High Ridge Capital Partners LP (9.2%), a direct equity investment fund;
- Transatlantic Reinsurance Co. (5.0%), a partially owned subsidiary of AIG Inc.; and
- Greenwich Street Capital Partners (5.0%), a direct equity investment fund.

The balance of the shares is held by the public (56.7%) and certain members of management (less than 0.1%). At this point, RAM Re's strategic ownership consists of The PMI Group Inc. and Transatlantic Reinsurance Co., together representing 29% of ownership. The loss of MBIA as a strategic investor should have no material effect on the company since MBIA provides a significant percent of RAM Re's reinsurance volumes through both treaty and facultative arrangements and this relationship is not expected to change. MBIA participated in RAM Holdings' sale of shares in 2003, purchasing an 11.4% ownership in the company, but sold the shares as part of the IPO in 2006.

The financial investors, including Greenwich Street Capital Partners and High Ridge Capital Partners LP, have placed RAM Re shares in funds that they manage. These funds typically have an expiration date when the fund is to be liquidated. The earliest expiration date is 2008. Having shares of the company trade in a public market should facilitate an orderly liquidation of shares held by these funds. Some of these shareholders and one strategic owner participated in a secondary offering of shares in mid-June 2007. The reduction in ownership by current investors and the corresponding growth in public ownership is not a rating issue since RAM Re is viewed as a mature company that does not place significant reliance on its owners for meaningful support. Moreover, Standard & Poor's does not attribute significant value to ownership by financial investors.

The board of directors is made up of 11 individuals, including one management representative and five unaffiliated directors. Independent board members chair each of the four committees of the board: audit, risk management, nominating and governance, and compensation.

Like all reinsurers, the company has a thin staff. Operationally, senior management is led by CEO Vernon Endo. Richard Lutenski is CFO, and David Steel is the chief risk manager. Underwriting is led by James Gerry, head of public finance, and Paul Wollmann, head of structured finance. Paul Wollmann joined the company in early 2007, replacing the former head of structured finance who left the company upon the expiration of her employment contract. Victoria Guest is general counsel.

### ***Governance***

RAM Holdings' IPO in May 2006 resulted in just under 40% public ownership, and the company recently completed a further sale of the company's shares through a secondary offering, which resulted in a majority ownership stake by nonfounding shareholders. A changing ownership profile is always ratings relevant and particularly so at a financial guaranty reinsurer, where the appreciation of and adherence to strict underwriting and investment guidelines is critical to the rating. The company's board and management have, to date, shown a clear understanding of their responsibilities—not only as public company fiduciaries but also as stewards of a ratings-sensitive organization.

### ***Business Review***

Total gross par reinsured in 2006 was \$8.3 billion, 1% below the prior year's net par written, led by a 125% increase in non-U.S. public finance volume. A 21% decline in U.S. public finance volume accounted for the greatest year-to-year absolute change in volume. Global structured finance volume was essentially flat despite a 10% increase in the U.S. treaty business accounted for 78% of gross par written in 2006, down from 86% in 2005 as the company assumed more facultative structured finance business. A new FGIC treaty executed in April 2007 will likely cause the treaty component to rise in 2007. The company hopes to increase treaty business over time to drive expense ratios down by leveraging the existing infrastructure and staff. From a business economics perspective, results in 2006

reflect a changing mix of business toward the more competitive, less profitable sectors and the effect of lower premium rates. The result was that adjusted gross premiums written were down 9% from 2005, greater than the 1% decrease in gross par written.

RAM Re's underwriting activities have been greatly influenced by the needs of the primary companies. The three ceding companies that the company has had long-standing treaty relationships with produce a significant percent of its total new business. In 2006, Ambac ceded 26% of the net par written, followed by MBIA (22%) and FSA (21%). For the par outstanding as of Dec. 31, 2006, FSA was the ceding company for 35% of the in-force par, followed by MBIA at 28% and Ambac at 22%. RAM Re is seeking to diversify its sources of business; the new treaty in 2006 with XLFA, which contributed to the nearly 15% of new business ceded from that company in 2006, the new treaty with FGIC signed in 2007, and the growing facultative volumes from other primary insurers are examples of the success of this strategy.

This is the first year in recent history where RAM Re has exhibited a meaningful vulnerability to adverse selection on a risk-adjusted pricing basis. While RAM Re appears to have done an excellent job managing adverse selection on a risk-adjusted pricing basis in the U.S. public finance segment, in the other segments the company's risk-adjusted pricing indices were below the averages of the 'AAA' primary bond insurers. For the U.S. public finance segment, RAM Re had moderately higher capital charges but disproportionately higher premium rates. This resulted in a risk-adjusted pricing index (premium rate divided by capital charge) that, at 5.80%, was 19% higher than the 'AAA' rated primary company average. For U.S. asset-backed transactions, the capital charges were higher than the industry averages but the premium rates were higher by a proportionately lower amount, leading to a risk-adjusted pricing index of 7.87% that was 6% lower than the 'AAA' rated primary company average. The same pattern was true of the non-U.S. structured finance business with the risk-adjusted pricing index of 12.66% trailing the 'AAA' industry average by 18%. In the non-U.S. public finance arena, lower capital charge business was accompanied by even lower premium rates, leading to a profitability index of 8.81%, which was 19% lower than the 'AAA' rated primary company average. RAM Re's risk-adjusted pricing indices in all segments declined in 2006 versus 2005. This was true for the 'AAA' industry averages for domestic public finance business, but the industry averages improved for U.S. structured finance and the non-U.S. businesses.

Because primary insurers use reinsurers to help manage their larger exposures, reinsurers have found that a disproportionate amount of business ceded to them has been large exposures. While the reinsurers have been able to keep these exposures at or below Standard & Poor's guidelines, this dynamic has resulted in reinsurers having greater individual exposures relative to their capital than the primary insurers, particularly in the public finance sector. RAM Re has not been immune to this dynamic, but has focused on improving its position over time through active management of exposures, including instituting a retrocessional reinsurance facility in 2006. RAM Re has also benefited from the recent capital additions, which have improved the relationship of outstanding deal sizes to capital.

Speculative-grade exposure as of Dec. 31, 2006, was \$237 million, or 0.6% of statutory capital, on the lower end of the range reported by other 'AAA' rated insurers. This exposure will likely be further reduced as the Eurotunnel-related exposure, totaling \$68 million, is reportedly heading toward a favorable resolution. RAM Re's watch list contains \$27 million of public finance exposure in the area

affected by Hurricane Katrina. No reserves have been established against this exposure, and no claims are forecasted.

Exposure to domestic subprime mortgage transactions of all vintages at Dec. 31, 2006, was \$335.0 million, or 1.1% of net par outstanding. Of this total, just \$107.0 million was from the more problematic 2005 and 2006 vintages; about two-thirds of the total exposure had underlying ratings in the 'AA' and 'AAA' categories. RAM Re's 1.1% exposure relative to total net par outstanding places it near the bottom of the 0.9%-6.9% range reported for the 'AAA' rated primary insurers. RAM also has exposure to subprime collateral in CDOs that it has reinsured. Approximately \$550 million of reinsured CDOs have at least 10% subprime collateral. All of these are rated at least 'AA'. The \$550 million represents 1.8% of total outstanding net par exposure, placing RAM Re near of the bottom of the 0.1%-10.5% range for the 'AAA' primary bond insurers.

Table 1

<b>RAM Reinsurance Co. Ltd. Business Statistics</b>					
<i>— Year ended Dec. 31 —</i>					
<i>(Mil \$)</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Net par exposure	31,119.0	27,054.3	22,153.8	19,775.0	15,860.0
<b>Adjusted Gross Premiums Written*</b>					
U.S. public finance	29.7	38.3	28.3	37.7	23.3
U.S. asset-backed and other	32.5	30.4	22.5	16.8	14.4
U.S. total	62.2	68.7	50.8	54.4	37.7
International public finance	22.3	20.9	25.2	30.0	6.7
International asset-backed and other	10.9	14.9	12.6	12.2	9.4
International total	33.2	35.8	37.8	42.2	16.1
Total adjusted gross premiums written	95.4	104.5	88.6	96.6	53.8
Net premiums written	75.5	68.1	66.0	67.9	36.0
<b>Gross Par Written</b>					
U.S. public finance	2,672.0	3,402.0	3,144.0	2,330.4	2,150.2
U.S. asset-backed and other	3,506.0	3,173.0	3,391.0	1,959.9	1,732.3
U.S. total	6,178.0	6,575.0	6,531.0	4,290.3	3,882.5
International public finance	1,131.0	503.0	507.0	771.9	182.6
International asset-backed and other	988.0	1,323.0	1,019.0	1,102.2	679.5
International total	2,119.0	1,826.0	1,526.0	1,874.1	862.1
Total gross par written	8,297.0	8,401.0	8,061.0	6,164.4	4,744.6
Net par written	8,246.0	8,401.0	8,061.0	6,164.4	4,744.6

\*Adjusted gross premiums written include up-front and present value of installment premiums.

Table 2

**RAM Reinsurance Co. Ltd. Net Par By Source**

Year ended Dec. 31, 2006

<i>(Mil \$)</i>	<i>Net par in force</i>	<i>Net par written</i>
Ambac	6,735.0	2,168.0
FGIC	2,599.0	800.0
FSA	10,851.0	1,740.0
MBIA	8,717.0	1,784.0
XLCA	1,531.0	1,205.0
Other	686.0	600.0
Total	31,119.0	8,297.0

Table 3

**RAM Reinsurance Co. Ltd. Portfolio Statistic:**

—Year ended Dec. 31—

<i>(Mil \$)</i>	<i>2006 industry average % of par</i>	<i>2006 % of par</i>	<i>2006 par</i>	<i>2005 par</i>	<i>2004 par</i>	<i>2003 par</i>
<b>Public Finance</b>						
GO	20.8	18.3	5,692.0	5,281.9	4,737.9	3,688.0
Utility	9.2	9.3	2,888.0	2,649.4	2,486.3	2,335.0
Tax-backed	8.8	7.4	2,318.0	1,984.3	1,482.1	1,278.0
Health care	4.3	7.1	2,203.0	1,823.9	1,509.5	1,361.0
Transportation	5.0	8.0	2,478.0	2,398.8	2,095.7	1,969.0
Colleges and universities	3.1	1.2	384.0	328.2	232.5	192.0
Investor-owned utilities	1.5	1.8	570.0	524.5	440.6	467.0
Housing	1.7	1.2	359.0	337.1	253.9	242.0
Special revenue	0.6	0.2	73.2	74.4	83.5	110.0
Other	2.5	0.2	71.8	9.0	20.1	34.0
Total	57.4	54.7	17,037.0	15,411.6	13,342.1	11,676.0
Leases contained in above	4.2	4.4	1,372.0	1,188.0	1,258.9	945.0
<b>Domestic Asset-Backed and Corporate Finance</b>						
MBS	4.1	1.0	317.0	429.4	683.9	531.0
Home equity loan	2.4	4.4	1,373.0	1,589.5	1,046.8	787.0
Auto loan	1.7	1.8	545.0	626.2	448.8	580.0
Other consumer asset-backed	1.7	1.2	358.0	481.2	531.5	519.0
Commercial asset-backed	8.3	15.1	4,700.0	3,144.2	1,867.5	1,943.0
Bank/financial institutions	0.2	0.3	91.0	77.9	46.1	82.0
Other	9.2	0.1	36.0	25.2	42.8	35.0
Total	27.6	23.8	7,420.0	6,373.6	4,667.4	4,477.0
<b>International</b>						
Public finance	5.1	10.4	3,224.0	1,472.1	1,378.6	1,460.0
Asset-backed	9.4	11.0	3,438.0	3,268.0	2,532.9	2,159.0

Table 3

<b>RAM Reinsurance Co. Ltd. Portfolio Statistics (cont. 'd)</b>						
—Year ended Dec. 31—						
<i>(Mil \$)</i>	<i>2006 industry average % of par</i>	<i>2006 % of par</i>	<i>2006 par</i>	<i>2005 par</i>	<i>2004 par</i>	<i>2003 par</i>
Other	0.5	0.0	0.0	529.0	232.8	3.0
Total	15.0	21.4	6,662.0	5,269.1	4,144.3	3,622.0
Total net par outstanding	100.0	100.0	31,119.0	27,054.3	22,153.8	19,775.0

### **Finances**

In 2006, on a U.S. GAAP basis for RAM Holdings, net premiums earned were up 15%, reflecting the dramatic growth in the insured portfolio over the past couple of years. Operating income was \$20.6 million, up 150% from \$8.2 million in 2005. A \$10 million year-to-year reduction in loss and adjustment expenses, primarily relating to a reduction in reserves largely on an airline industry-related obligation and a manufactured housing transaction, offset an increase in total expenses which were up 15%. Operating efficiency improved slightly, evidenced by a 63.6% expense ratio, which was 0.2 percentage points lower than last year. The company is managing its expense base to benefit from a growing book of business that should yield improved economies of scale over time.

With regard to its other earnings component, investment income—including realized losses of \$1.0 million and unrealized losses on credit derivatives of \$14,000—was \$23.2 million, an improvement of 65% from 2005. Excluding realized and unrealized gains, investment income was \$24.2 million, up 33%, reflecting the growth in invested assets. The \$626 million investment portfolio, managed by New England Asset Management, has an 'AA+' average credit quality and includes U.S. government securities, corporate obligations, MBS, and other consumer ABS. The lower investment income growth offset the higher growth in operating income, leading to a 110% increase in earnings to \$41.1 million in 2006. The return on average equity in 2006 was 11.7%. The unusual loss reserve activity of 2006 is not sustainable over the long term. Therefore, continued improvement in the ROE will be realized only through a combination of lower expense ratios and greater operating leverage.

Table 4

<b>RAM Reinsurance Co. Ltd. Financial Statistics</b>					
—Year ended Dec. 31—					
<i>(Mil \$)</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
<b>Insurance Company*</b>					
Total assets	641.3	490.7	445.4	367.7	226.4
Cash + invested assets	626.0	480.5	438.2	352.3	215.2
Unearned premiums	224.7	189.1	160.3	131.4	85.6
Statutory capital	403.4	284.8	274.6	230.3	135.3
Net premiums earned	42.1	39.3	25.7	22.0	14.9
Losses and LAE	(3.9)	7.2	4.1	1.3	2.7
Underwriting expense	38.7	34.6	29.9	29.7	19.2
Investment income including gains	23.2	16.6	17.3	14.9	14.1
Net income	30.6	14.1	9.0	6.0	7.1
Loss ratio (%)	(9.4)	18.3	15.9	5.8	16.1

Table 4

<b>RAM Reinsurance Co. Ltd. Financial Statistics (cont. 'd)</b>					
	—Year ended Dec. 31—				
<i>(Mil \$)</i>	2006	2005	2004	2003	2002
Underwriting profitability ratio (%)¶	17.4	(6.3)	(32.3)	(40.6)	(47.1)
<b>Holding Company (RAM Holdings Ltd.)§</b>					
Total assets	711.9	553.6	510.8	426.3	277.1
Stockholders' equity	379.3	322.7	311.5	289.3	185.6
Net income	41.1	19.6	24.7	21.2	14.3
Debt/capitalization (%)**	11.3	11.0	11.4	0.0	0.0
Hybrid security tolerance ratio (%)¶¶	11.9	0.0	0.0	0.0	0.0
Total hybrid security tolerance ratio (%)§§	20.0	12.1	12.5	14.7	0.0
Return on average equity (%)	11.7	6.2	8.2	9.2	8.4

\*Statutory basis of accounting. ¶Underwriting profitability ratio = (net earned premiums - underwriting expenses and losses)/net earned premiums. §GAAP basis of accounting. \*\* $(\text{Holding company debt} + \text{hybrid securities not qualifying as equity}) / (\text{holding company debt} + \text{shareholders equity} + \text{hybrid securities})$ . ¶¶ $(\text{Hybrid securities}) / (\text{Capital [debt} + \text{shareholders equity]} + \text{hybrid securities})$ . §§ $(\text{Hybrid securities} + \text{contingent capital}) / (\text{Capital} + \text{hybrid securities} + \text{contingent capital})$ .

## Accounting

Standard & Poor's views RAM Re's accounting policies to be generally consistent with industry standards and neutral to the ratings. There were no restatements during 2006.

Loss reserves are currently established by RAM Re based on case-basis reserves (for insured obligations that have already defaulted, based on data from the ceding companies and management judgment), and on unallocated reserves (company's estimate of losses that are probable due to credit deterioration within the insured portfolio but not allocated to specific transactions, based on analysis of ceding company unallocated reserves). The SEC and the FASB are currently reviewing the noncase-basis reserving accounting methodology of the industry, and the FASB has issued a Proposed Statement of Financial Accounting Standards for comment. The proposed statement, if adopted as is, calls for the insurer to recognize a liability only when it expects a claim loss in excess of the unearned revenue for that contract based on discounted cash flows and may result in significant changes to the manner in which losses are recognized. This change, if adopted, would not have a ratings impact since the reserve methodology for case-basis reserves will not change and Standard & Poor's places more weight on projected losses in a stress test context versus potential claims in the current environment. Standard & Poor's notes the company's current reserving methodology is consistent with industry methodologies utilized and views their current reserves held as adequate.

Revenue recognition is also under review by the FASB and is covered by the proposed accounting statement. Currently for RAM Re, up-front premiums are earned in relation to the amount of insurance protection provided. Under the proposed change, earned premium recognition could be slower. This change, if adopted, would not have a rating impact since the fundamental economics of a transaction and the bond insurance model have not changed.

Under SFAS 133, "Accounting for Derivative Instruments and Certain Hedging Activities," RAM Re is required to mark credit derivative transactions to market with the changes in fair value recognized in the income statements, notwithstanding the fact that RAM Re does not intend to trade these instruments and ultimately the mark will "zero out" in the very high percent of instances given the low

probability of default by the underlying credit. In Standard & Poor's opinion, this concept has introduced an element of earnings volatility that has little bearing on either the likelihood of a potential claim or the intrinsic earnings power of a bond insurer. Calculations excluding the impact of these mark-to-market gains or losses from credit derivative instruments are useful, supplemental earnings measures.

### ***Capitalization***

RAM Re's claims-paying resources at Dec. 31, 2006, were \$969.5 million, up 31% from the prior year. Capital infusions of \$90.3 million augmented solid growth in both earnings and premiums to be earned in future years. RAM Holdings has raised capital several times since 2002 to support RAM Re's ability to respond to growth opportunities and to be viewed more favorably by its primary insurer clients. The capital infusions into the reinsurance company in 2006 were the \$16.4 million funded by the proceeds from RAM Holdings' IPO in May and \$73.9 million funded by the proceeds from the sale of \$75 million of hybrid securities in December. The hybrid securities, offered in the form of preferred stock, exceeded the maximum amount that would allow them to receive 100% treatment as equity in the various capitalization ratios computed by Standard & Poor's. At Dec., 31, 2006, under the most restrictive ratio test, RAM Holdings received equity credit for \$59 million of the \$75 million; the balance is treated as debt for purposes of computing the ratios. As RAM Holdings' equity capital grows through retained earnings, the portion of the hybrid securities that receive equity will grow. The entire amount of equity infusions are treated as capital for purposes of analyzing RAM Re's capitalization.

RAM Re's existing capital resources, future earnings, and cash flow generated a strong margin of safety when stressed in Standard & Poor's capital adequacy model. As of Dec. 31, 2006, the company's margin of safety was in the 1.7x-1.8x range, up from the 1.3x-1.4x range reported as of year-end 2005. The year-to-year improvement is primarily the result of the capital infusions received during the year. Also contributing were lower municipal and structured finance capital charges. The 2006 result is not expected to be sustained since the bulk of the new capital was injected late in the year and the company had not had the opportunity to leverage it through increased business volume. The margin of safety expresses the relationship between theoretical losses generated in the capital adequacy model and capital remaining at the end of a theoretical depression. RAM Re's margin of safety comfortably exceeds Standard & Poor's 1.25x minimum requirement for an 'AAA' rated company.

RAM Re makes greater use of nonrecourse bank lines of credit and committed capital facilities (collectively "soft capital") than does the average bond insurer. In 2006, RAM Re had a 21.9% reliance on soft capital, down from 28.9% in 2005. The decrease reflects the growth of the capital base while the soft capital resources were unchanged. This ratio expresses the percent of claims-paying resources available in the capital adequacy model that was supplied by third parties. Standard & Poor's criteria generally places a 33% limit on soft capital. RAM Re's soft capital includes \$130 million of nonrecourse bank lines and \$50 million of committed capital. The committed capital facility is known as Blue Water Trust I and provides a \$50 million pool of funds that is available to RAM Re at its discretion in return for the issuance of preferred stock to the trust. The assets of the trust are invested in high-quality, short-term securities.

Standard & Poor's reviews a bond insurer's cash position and its ability to raise additional cash against conservatively defined theoretical payments associated with a company's various product lines.

The approach to this analysis is that there could be unexpected liquidity demands on an insurer in periods of economic tranquility as well as stress. Liquidity resources and potential liquidity demands are examined for the current year and several subsequent years. RAM Re's liquidity ratio as of Dec. 31, 2006, was 2.34x, well in excess of what is considered adequate for a bond insurer. Liquid resources totaled \$286.3 million available at year-end 2006. Against these resources, RAM Re has theoretical payments in 2007 totaling \$122.1 million.

Table 5

<b>RAM Reinsurance Co. Ltd. Capital Statistics</b>					
	—Year ended Dec. 31—				
<i>(Mil \$)</i>	2006	2005	2004	2003	2002
<b>Portfolio Risk</b>					
Municipal insurance weighted average capital charge (% of average annual debt service)	11.3	12.0	11.5	11.9	10.6
Asset-backed capital charge (% of par)	2.2	2.3	2.4	2.5	2.8
<b>Claims-Paying Resources</b>					
Statutory capital	403.4	284.8	274.6	230.3	135.3
Contingent capital	50.0	50.0	50.0	50.0	0.0
Letters/lines of credit	130.0	130.0	90.0	90.0	70.0
Owner capital commitment	0.0	0.0	0.0	0.0	0.0
Stop-loss treaty	0.0	0.0	0.0	0.0	0.0
Unearned premiums	224.7	189.1	160.3	131.4	85.6
Present value of annual premiums	161.4	84.8	59.5	55.6	34.5
Total	969.5	738.8	634.4	557.3	325.4
<b>Capital Adequacy</b>					
Capital remaining at end of depression test	300-350	100-150	150-200	100-150	50-100
Margin of safety (x)	1.7-1.8	1.3-1.4	1.4-1.5	1.3-1.4	1.3-1.4
Reliance on soft capital (%)	21.9	28.9	25.1	22.6	15.5

Table 6

<b>RAM Reinsurance Co. Ltd. Liquidity Analysis:</b>	
	<i>Haircut (%) Amount (Mil \$)</i>
<b>Assets/Resources as of Dec. 31, 2006</b>	
Cash and short-term investments	0.0 51.8
Treasury and government agency fixed income securities	10.0 339.0
Corporate and ABS/MBS bonds	50.0 223.3
Bank lines of credit	0.0 0.0
Other	0.0
Total	468.6
Adjusted cash totals after haircut	286.3
Municipal bonds (informational/back/up only)	11.7
<b>Potential Uses (Occurring in the Full Year 2007)</b>	

Table 6

<b>RAM Reinsurance Co. Ltd. Liquidity Analysis (cont. 'd)</b>	
	<b>Haircut (%) Amount (Mil \$)</b>
Largest net total payments in 2006 associated with a municipal obligor default	24.8
Largest net bullet maturity default (potentially includes IOUs, international, or "guaranteed" maturity bonds)	16.2
Largest debt service reserve draw	12.9
90 days of payments associated with the largest servicer default	40.6
Largest financial service obligations, such as largest unscheduled draw on a municipal investment contract	0.0
Largest individual "single name" credit default swap or single name in a defaulted synthetic structure	19.2
Holding company debt and dividend servicing needs	8.4
Other	0.0
Total	122.1
Net (assets-usage)	164.2
Liquidity ratio (x)	2.3

**Ratings Detail (As Of 14-Jun-2007)\*****RAM Reinsurance Co Ltd.**

Financial Strength Rating	
<i>Local Currency</i>	AAA/Negative/—
Counterparty Credit Rating	
<i>Local Currency</i>	AAA/Negative/—
Financial Enhancement Rating	
<i>Local Currency</i>	AAA/—/—
<b>Holding Company</b>	RAM Holdings Ltd
<b>Domicile</b>	Bermuda

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2007 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at: [privacy@standardandpoors.com](mailto:privacy@standardandpoors.com). For more information about The McGraw-Hill Companies Privacy Policy please visit [www.mcgraw-hill.com/privacy.html](http://www.mcgraw-hill.com/privacy.html).

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280; or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).

**The McGraw-Hill Companies**