



# RAM HOLDINGS LTD.

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NINE MONTH REPORT

SEPTEMBER 30, 2010

# **RAM Holdings Ltd.**

**Unaudited Consolidated Financial Statements  
For the Period Ended  
September 30, 2010**



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

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of \$306,974,190 and \$338,380,021)	\$ 324,831,274	\$ 345,779,503
Cash and cash equivalents	3,859,825	9,311,110
Restricted cash	1,664,338	2,884,962
Accrued investment income	2,245,209	2,243,925
Reinsurance balances receivable, net	20,138,227	22,344,848
Recoverables on paid losses	17,242,867	11,352,701
Deferred policy acquisition costs	56,806,899	61,899,987
Deferred expenses	542,653	1,408,449
Other assets	570,713	600,557
<b>Total assets</b>	<b>\$ 427,902,005</b>	<b>\$ 457,826,042</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Losses and loss expense reserve	\$ 52,000,151	\$ 56,672,359
Unearned premiums	141,697,372	153,429,709
Accounts payable and accrued liabilities	1,191,796	3,050,362
Accrued interest payable	—	618,750
Derivative liabilities	55,042,112	50,135,456
Long-term debt	—	35,000,000
Redeemable preference shares (\$1,000 redemption value and \$0.10 par value; authorized shares – 75,000; issued and outstanding shares – 59,700 and 75,000 at September 30, 2010 and December 31, 2009)	59,700,000	75,000,000
<b>Total liabilities</b>	<b>309,631,431</b>	<b>373,906,636</b>
Commitments and contingencies		
Shareholders' equity:		
Common shares (\$0.10 par value; authorized shares – 90,000,000; issued and outstanding shares – 26,394,564 shares at September 30, 2010 and 26,340,174 shares at December 31, 2009)	2,639,456	2,634,017
Additional paid-in capital	231,299,646	230,961,616
Accumulated other comprehensive income	17,857,084	7,399,482
Retained deficit	(140,536,467)	(165,190,099)
<b>Total shareholders' equity</b>	<b>111,259,719</b>	<b>75,805,016</b>
Noncontrolling interest – Class B preference shares of subsidiary	7,010,855	8,114,390
<b>Total equity</b>	<b>118,270,574</b>	<b>83,919,406</b>
<b>Total liabilities and equity</b>	<b>\$ 427,902,005</b>	<b>\$ 457,826,042</b>

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>		<b>As restated</b>		<b>As restated</b>
Net premiums earned	\$ 3,617,928	\$ 7,654,084	\$ 11,538,138	\$ 23,371,360
Change in fair value of credit derivatives:				
Realized gains and other settlements	909,248	1,123,941	463,097	3,119,435
Unrealized gains (losses)	(7,538,422)	25,164,894	(3,124,185)	26,670,660
Net change in fair value of credit derivatives	(6,629,174)	26,288,835	(2,661,088)	29,790,095
Net investment income	2,738,265	3,354,323	8,657,498	11,337,980
Net realized gains on sale of investments	359,191	222,328	1,665,528	8,274,259
Total other-than-temporary impairment losses	—	—	(32,500)	(4,938,091)
Portion of impairment losses recognized in other comprehensive income (loss)	—	(66,140)	23,504	265,655
Net other-than-temporary impairment losses (recognized in earnings)	—	(66,140)	(8,996)	(4,672,436)
Net unrealized loss on other financial instruments	—	—	—	(1,196,760)
Foreign currency gains (losses)	957,411	244,488	(22,353)	416,455
Net gain on extinguishment of redeemable preference shares	—	—	11,475,000	—
Net gain on extinguishment of long-term debt	—	—	15,250,000	3,403,040
<b>Total revenues</b>	<b>1,043,621</b>	<b>37,697,918</b>	<b>45,893,727</b>	<b>70,723,993</b>
<b>Expenses:</b>				
Loss and loss adjustment expenses	457,410	3,648,517	5,188,861	16,858,299
Acquisition expenses	1,634,555	3,536,033	5,125,511	17,524,385
Operating expenses	1,771,758	3,138,678	9,410,682	13,246,161
Interest expense	—	584,375	918,576	1,884,974
<b>Total expenses</b>	<b>3,863,723</b>	<b>10,907,603</b>	<b>20,643,630</b>	<b>49,513,819</b>
<b>Net income (loss) before noncontrolling interest</b>	<b>\$ (2,820,102)</b>	<b>\$ 26,790,315</b>	<b>\$ 25,250,097</b>	<b>\$ 21,210,174</b>
Noncontrolling interest – dividends on preference shares of subsidiary	—	—	—	(921,743)
<b>Net income (loss) available to common shareholders</b>	<b>\$ (2,820,102)</b>	<b>\$ 26,790,315</b>	<b>\$ 25,250,097</b>	<b>\$ 20,288,431</b>
Net income (loss) per common share:				
Basic	\$ (0.11)	\$ 1.02	\$ 0.96	\$ 0.76
Diluted	\$ (0.11)	\$ 1.02	\$ 0.96	\$ 0.76
Weighted-average number of common shares outstanding:				
Basic	26,394,435	26,340,327	26,374,799	26,848,610
Diluted	26,394,435	26,340,327	26,374,799	26,848,610

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
		<b>As restated</b>		<b>As restated</b>
<b>Net income (loss)</b>	\$ (2,820,102 )	\$ 26,790,315	\$ 25,250,097	21,210,174
<b>Other comprehensive income</b>				
Change in unrealized fair value of investments	3,977,235	9,865,694	12,137,638	8,751,659
Less: Reclassification adjustment for net realized gains included in net income (loss)	(359,191 )	(222,328 )	(1,665,528 )	(8,274,259 )
Less: Net other-than-temporary impairment losses (recognized in earnings)	—	66,140	8,996	4,672,436
Portion of impairment losses recognized in other comprehensive income	—	(66,140)	(23,504 )	(265,655 )
Other comprehensive income	<u>3,618,044</u>	<u>9,643,366</u>	<u>10,457,602</u>	<u>4,884,181</u>
<b>Comprehensive income for the period</b>	<u>\$ 797,942</u>	<u>\$ 36,433,681</u>	<u>\$ 35,707,699</u>	<u>\$ 26,094,355</u>

**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, 2009	\$ 2,634,017	\$ 8,114,390	\$ 230,961,616	\$ 7,399,482	\$ (165,190,099)	\$ 83,919,406
Share issuance	5,439	—	(5,439)	—	—	—
Share based compensation	—	—	343,469	—	—	343,469
Net income	—	—	—	—	25,250,097	25,250,097
Non credit component of impairment losses on available-for-sale securities	—	—	—	(23,504)	—	(23,504)
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	10,481,106	—	10,481,106
Repurchase of noncontrolling interest	—	(1,103,535)	—	—	(596,465)	(1,700,000)
Balance, September 30, 2010	<u>\$ 2,639,456</u>	<u>\$ 7,010,855</u>	<u>\$ 231,299,646</u>	<u>\$ 17,857,084</u>	<u>\$ (140,536,467)</u>	<u>\$ 118,270,574</u>

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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
		<b>As restated</b>
<b>Cash flows from operating activities:</b>		
Net income for the period	\$ 25,250,097	\$ 21,210,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on sale of investments	(1,665,528)	(8,274,259)
Net other-than-temporary impairment losses recognized in earnings	8,996	4,672,436
Foreign currency losses (gains) on revaluation	(11,541)	(443,387)
Net unrealized (losses) gains on credit derivatives	3,124,185	(26,670,660)
Net unrealized loss on other financial instruments	—	1,196,760
Net gain on extinguishment of redeemable preference shares	(11,475,000)	—
Net gain on extinguishment of debt	(15,250,000)	(3,403,040)
Depreciation and amortization	891,698	172,941
Amortization of debt discount	89,399	4,710
Amortization of bond premium and discount	456,591	834,509
Share based compensation	343,469	409,869
Changes in assets and liabilities:		
Accrued investment income	(1,284)	1,967,631
Reinsurance balances receivable	2,218,162	73,033,453
Recoverables on paid losses	(5,890,166)	(5,372,823)
Deferred policy acquisition costs	5,093,088	65,952,522
Prepaid reinsurance premiums	—	876,369
Other assets / liabilities	(77,890)	2,818,911
Losses and loss adjustment expenses	(4,672,208)	(66,609,706)
Unearned premiums	(11,732,337)	(177,313,902)
Derivative liability	1,782,471	(20,808)
Reinsurance balances payable	—	(1,050,654)
Accounts payable, accrued liabilities and interest payable	(2,477,316)	(375,398)
<b>Net cash used in operating activities</b>	<b>(13,995,114)</b>	<b>(116,384,352)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(73,651,418)	(182,972,619)
Proceeds from sales of investments	85,345,201	216,861,176
Proceeds on maturities of investments	20,911,988	33,096,792
Net change in restricted cash	1,220,624	3,315,023
Net purchases of fixed assets	(7,566)	(16,530)
<b>Net cash provided by investing activities</b>	<b>33,818,829</b>	<b>70,283,842</b>
<b>Cash flows from financing activities:</b>		
Dividends on preferred shares of subsidiary	—	(921,743)
Net proceeds from issuance of preference shares	—	50,001,000
Purchase of treasury stock	—	(298,305)
Repurchase of preference shares	(3,825,000)	—
Repurchase of long-term debt	(19,750,000)	(1,596,960)
Repurchase of noncontrolling interest	(1,700,000)	—
<b>Net cash provided by (used in) financing activities</b>	<b>(25,275,000)</b>	<b>47,183,992</b>
<b>Decrease in cash and cash equivalents</b>	<b>(5,451,285)</b>	<b>1,083,482</b>
Cash and cash equivalents – Beginning of period	9,311,110	8,763,062
<b>Cash and cash equivalents – End of period</b>	<b>\$ 3,859,825</b>	<b>\$ 9,846,544</b>
Supplemental cash flow disclosure:		
Interest paid on long-term debt	\$ 1,537,326	\$ 2,578,125

**RAM Holdings Ltd.**  
**Explanatory notes**

The interim unaudited consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). These statements should be read in conjunction with the audited consolidated financial statements and notes for the period ended December 31, 2009 and the unaudited consolidated financial statements for the period ended September 30, 2009, for RAM Holdings Ltd. which are posted on the Company’s website and can be found at [www.ramre.com](http://www.ramre.com) under “investor information”.

**Subsequent Events:**

On December 22, 2010, RAM Reinsurance Company Ltd. (“RAM Re”) entered into a Settlement, Reassumption and Release Agreement (the “Agreement”) with Assured Guaranty Corp. (“Assured”). The Agreement provided, among other things, for RAM Re to make a \$10.3 million payment to commute seven policies previously assumed from Assured, with par inforce of \$123.0 million as of September 30, 2010, primarily relating to residential mortgage backed securities. In return, each party was released from all liabilities and obligations of the commuted policies. The effect of this transaction will be recorded by RAM in the fourth quarter of 2010.



## 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 September 30, 2010, were 736,152 shares.

## Equity Compensation of EXECUTIVE Officers and Directors

The table below sets forth the aggregate number of shares underlying option awards outstanding at September 30, 2010, for each director who has received option awards (options awards relating to David Steel are included in the executive officers table following):

Name	Shares Underlying Options at September 30, 2010 (#) (Outstanding)	Shares Underlying Options at September 30, 2010(#) (Exercisable)	RSU's: Number of Shares that Have Not Vested (#)
Edward F. Bader .....	50,800	20,150	28,674
David L. Boyle .....	48,200	17,550	28,674
Clement S. Dwyer .....	30,000	-	28,674
Steven J. Tynan .....	30,000	-	28,674

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

The following table shows equity awards granted to executive officers of the Company outstanding at September 30, 2010:

Name	Shares Underlying Options at September 30, 2010 (#) (Outstanding)	Shares Underlying Options at September 30, 2010(#) (Exercisable)	RSUs: Number of Shares that Have Not Vested (#)
David K. Steel	435,903	324,157	1,918

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

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

There have been no options exercised during the nine months ended September 30, 2010.

**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 our website at [www.ramre.com](http://www.ramre.com) under Investor Information.

Requests for copies of the RAM Holdings Ltd. 2010 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.