RAM Holdings Ltd. Announces Second Quarter 2010 Net Income Available to Common Shareholders of $26.3 Million

HAMILTON, Bermuda--(BUSINESS WIRE)-- RAM Holdings Ltd. (BSX:RAMR) (Pink Sheets:RAMR) ("RAM" or the "Company") today reported second quarter 2010 net income available to common shareholders of $26.3 million, or net income of $1.00 per diluted share. This compares to a net loss of $4.6 million, or a net loss of $0.17 per diluted share, for the second quarter 2009.

Commenting on financial results, RAM Chief Executive Officer David Steel noted that, "Our second quarter net income was largely driven by a gain on the previously announced repurchase of the Company's remaining Senior Notes, along with decreases in unrealized losses on our reinsured credit derivative portfolio. In our view, the Company's operating income for the second quarter 2010, which is defined later in this earnings release, reflects a better measure of the core financial performance of the Company."

Summary of Operating Results

Net income was $26.3 million for the quarter ended June 30, 2010. While net income is calculated in conformity with U.S. generally accepted accounting principles (GAAP), RAM provides other information 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 earnings, which excludes realized investment gains or losses, unrealized gains or losses on credit derivatives, foreign currency gains or losses and other one-time gains or losses.

During the second quarter of 2010, operating income was $2.2 million, or $0.08 per diluted share, compared to an operating loss of $6.4 million, or $0.24 per diluted share in the second quarter 2009.

Earned premiums in the quarter of $4.2 million were 35% lower than the $6.5 million earned in the second quarter of 2009. By eliminating accelerated premiums from refundings of $1.0 million from total earned premiums, normal earned premiums in the second quarter 2010 were $3.2 million, which was 7% higher than the comparative 2009 period, which included accelerated premiums from refundings of $3.5 million.

Net change in fair value of credit derivatives totaled a gain of $13.0 million in the second quarter 2010, which was $22.4 million more than the $9.4 million loss in the second quarter of 2009. Net change in fair value of credit derivatives for the second quarters of 2010 and 2009 were comprised of $12.0 million and $(10.5) million of unrealized gains (losses) on derivatives, respectively, and $1.0 million and $1.1 million of realized gains, respectively. The net unrealized gain in the second quarter 2010 was primarily attributable to (i) the decrease in gross unrealized losses on credit derivative policies of $6.6 million due to improvements in pricing on the non-CDO and RMBS portions of the portfolio, and (ii) the increase in the adjustment for RAM's own non-performance risk of $4.9 million. In accordance with The 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 $130.7 million at June 30, 2010.

Net investment income for the second quarter 2010 was $2.8 million, 20% below the $3.5 million recorded in the second quarter of 2009. The decrease in investment income in the second quarter 2010 is primarily the result of a decrease in cash and invested assets due to payments on commutations in 2009 totaling $99.2 million, together with a decrease of $25.3 million in cash and invested assets due to payments associated with the repurchases of the Company's unsecured senior notes (the "Notes") and Series A and B preference shares during the first half of 2010.

Realized gains on investments for the second quarter 2010 were $0.9 million compared to $3.5 million in realized gains for the same period in 2009. Realized gains were offset by immaterial other-than-temporary impairment losses for the second quarter of 2010 compared to $0.6 million for the comparable 2009 period.

Net realized gains of $10.8 million were recognized on the repurchase of the Company's remaining Notes during the second quarter 2010. During the comparable quarter ended June 30, 2009, the Company repurchased $5.0 million of its Notes, realizing a gain of $3.4 million. The Notes that were repurchased were cancelled immediately after such repurchase.

Losses and loss adjustment expenses were $(1.2) million in the second quarter 2010, contributing to a loss ratio of (29)%. This loss ratio is attributable to several factors including improved delinquency experience and an increase in representation and warranties repurchase credit on RAM's exposure to insured transactions with residential mortgage-backed securities. This compares to $(3.5) million of incurred losses in the comparable 2009 period.

Acquisition expenses were $1.9 million in the second quarter of 2010 compared to $10.0 million for the comparable 2009 period. Acquisition expenses for the second quarter 2010 are $8.1 million below the comparable 2009 period primarily due to the following items recorded in 2009, (i) the write off of $4.7 million of Deferred Acquisition Costs ("DAC") which were not considered recoverable, and (ii) an increase in the recognition of previously deferred operating expenses of $1.9 million due to the commutation with Ambac. Apart from these non-recurring items such as DAC write-off, acquisition expenses are closely related to earned premiums. Thus the decrease in acquisition expenses in the second quarter 2010 as compared to the comparable 2009 period was also due to the decrease in earned premiums in the period. Second quarter 2010 operating expenses of $3.7 million were $1.2 million, or 24%, below the level in the second quarter of 2009. The decrease in operating expenses for 2010 as compared to 2009 is primarily due to (i) reductions in staff made during 2009 and 2010 and (ii) other expense reducing measures taken in 2009 such as de-listing from the NASDAQ and withdrawal of RAM Re's financial strength ratings, which had their full impact in 2010.

Balance Sheet

Total assets of $427.7 million at June 30, 2010, were $30.1 million, or 7%, below the level at December 31, 2009. This decrease is primarily related to the reduction in invested assets due to the payment for the repurchase of the Notes and Series A and B preference shares. Shareholders' equity of $110.4 million was $34.6 million, or 46%, above the level at December 31, 2009, primarily due to the improvement in unrealized gains on investments together with net income earned in the first six months of 2010. Book value per share was $4.18, an increase of 45% from year-end 2009. Operating book value and adjusted operating book value per share, both of which are non-GAAP financial measures, were $5.40 and $9.25 respectively at June 30, 2010, an increase of 29% and 8%, respectively, from year-end 2009.

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 its current run off strategy, the financial results related to its security repurchases 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 our 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 whom RAM 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's insured portfolio; (vii) losses on credit derivatives; (viii) changes in RAM's accounting policies and procedures that impact RAM's reported financial results; and (ix) 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 earnings: The Company believes operating earnings are 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 earnings are 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 it gives a measure of the value of RAM, excluding non-operating items of unrealized gains and losses on: (a) other financial instruments and (b) credit derivatives. The Company derives operating book value by beginning with GAAP book value and adding back (i) the fair value of other financial instruments; and (ii) the 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 2.59% at June 30, 2010, and 2.20% at December 31, 2009);

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'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 metric 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 our credit derivative policies as a normal extension of our financial guarantee business and reinsurance in substance.

RAM Holdings Ltd. is a Bermuda-based holding company. Its operating subsidiary, RAM Reinsurance Company Ltd. ("RAM Re"), 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, 2010 and December 31, 2009
(dollars in thousands)

	June 30, 2010	Dec 31, 2009
Assets		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized Cost: $312,627 and $338,380)	$ 326,866	$ 345,780
Cash and cash equivalents	2,136	9,311
Restricted cash	2,381	2,885
Accrued investment income	1,974	2,244
Reinsurance balances receivable, net	19,173	22,345
Recoverables on paid losses	15,159	11,353
Deferred policy acquisition costs	58,515	61,900
Deferred expenses	565	1,408
Prepaid expenses	858	455
Other assets	44	145
Total Assets	$ 427,671	$ 457,826
Liabilities and Equity		
Liabilities:		
Loss and loss expense reserve	$ 54,304	$ 56,672
Unearned premiums	146,265	153,430
Accounts payable and accrued liabilities	1,878	3,050
Accrued interest payable	-	619
Derivative liabilities	48,092	50,135
Long-term debt	-	35,000
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 June 30, 2010 and December 31, 2009)	59,700	75,000
Total Liabilities	310,239	373,906
Shareholders' Equity:		
Common shares ($0.10 par value; authorized shares - 90,000,000;	2,639	2,634

issued and outstanding shares - 26,394,372 shares at June 30, 2010 and 26,340,174 at December 31, 2009)		
Additional paid-in capital	231,259	230,962
Accumulated other comprehensive income	14,239	7,400
Retained deficit	(137,716)	(165,190)
Total Shareholders' Equity	110,421	75,806
Noncontrolling interest - Class B preference shares of subsidiary	7,011	8,114
Total Equity	117,432	83,920
Total Liabilities and Equity	$ 427,671	$ 457,826

RAM Holdings Ltd.
Consolidated Statements of Operations
(unaudited)
For the three and six months ended June 30, 2010 and 2009
(dollars in thousands except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenues				
Net premiums earned	$ 4,232	$ 6,512	$ 7,920	$ 15,717
Change in fair value of credit derivatives				
Realized gains (losses) and other settlements	1,023	1,102	(446)	1,995
Unrealized gains (losses)	11,966	(10,506)	4,414	1,506
Net change in fair value of credit derivatives	12,989	(9,404)	3,968	3,501
Net investment income	2,760	3,501	5,919	7,984
Net realized gains on sale of investments	862	3,534	1,306	8,052
Total other-than-temporary impairment losses	(23)	(885)	(32)	(4,938)
Portion of impairment losses recognized in other comprehensive income (loss)	20	332	23	332
Net other-than-temporary impairment losses (recognized in earnings)	(3)	(553)	(9)	(4,606)
Net unrealized loss on other financial instruments	-	-	-	(1,197)
Foreign currency (losses) gains	(617)	1,227	(980)	172
Net gain on extinguishment of redeemable preference shares	-	-	11,475	-
Net gain on extinguishment of long-term debt	10,750	3,403	15,250	3,403
Total revenues	**30,973**	**8,220**	**44,849**	**33,026**
Expenses				
Losses and loss adjustment expenses	(1,235)	(3,534)	4,731	13,210
Acquisition expenses	1,897	10,028	3,491	13,988
Operating expenses	3,726	4,891	7,639	10,107
Interest expense	334	619	918	1,301
Total expenses	**4,722**	**12,004**	**16,779**	**38,606**

Net income (loss) before noncontrolling interest	**$ 26,251**	**$ (3,784)**	**$ 28,070**	**$ (5,580)**
Noncontrolling interest - dividends on preference shares of subsidiary	-	(784)	-	(922)
Net income (loss) available to common shareholders	**$ 26,251**	**$ (4,568)**	**$ 28,070**	**$ (6,502)**
Net income (loss) per common share:				
Basic	$ 1.00	$ (0.17)	$ 1.06	$ (0.24)
Diluted	1.00	(0.17)	1.06	(0.24)
Weighted-average number of common shares outstanding:				
Basic	26,379,752	26,952,060	26,364,819	27,106,964
Diluted	26,379,752	26,952,060	26,364,819	27,106,964

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Operating Income (Loss)				
Net income (loss) available to common shareholders	$ 26,251	$ (4,568)	$ 28,070	$ (6,502)
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(859)	(2,981)	(1,297)	(3,446)
Less: Unrealized (gains) losses on credit derivatives	(11,966)	10,506	(4,414)	(1,506)
Add back: credit impairment on derivatives	(1,129)	(4,701)	1,835	(8,096)
Less: Foreign currency (gains) losses	617	(1,227)	980	(172)
Less: Other losses (gains) on debt and other financial instruments	(10,750)	(3,403)	(26,725)	(2,206)
Operating Income (Loss)	$ 2,164	$ (6,374)	$ (1,551)	$ (21,928)
Net income (loss) per diluted share	$ 1.00	$ (0.17)	$ 1.06	$ (0.24)
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(0.03)	(0.11)	(0.05)	(0.13)
Less: Unrealized (gains) losses on credit derivatives	(0.45)	0.39	(0.17)	(0.06)
Add back: credit impairment on derivatives	(0.04)	(0.17)	0.07	(0.30)
Less: Foreign currency (gains) losses	0.02	(0.05)	0.04	(0.01)
Less: Other losses (gains) on debt and other financial instruments	(0.41)	(0.13)	(1.01)	(0.08)
Operating income (loss) per diluted share	$ 0.08	$ (0.24)	$ (0.06)	$ (0.81)

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

	As at 30-Jun-10	As at 31-Dec-09
Shares outstanding	26,394	26,340
Operating Book Value		
Shareholders' Equity (Book Value)	110,421	75,806
Derivative Liability (1)	44,524	48,938
Add back credit impairments on derivatives	(12,543)	(14,377)
Operating book value per share	5.40	4.19

Noncontrolling interest	7,011	8,114
Unearned premiums (2)	147,845	155,262
Deferred Acquisition Costs	(58,515)	(61,900)
Present Value of Installment Premiums (3)	19,752	21,028
Unrealized Gains on Investments	(14,239)	(7,400)
Adjusted Operating Book Value Per Share	$ 9.25	$ 8.56

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

(2) Includes unearned premium balances on credit derivative policies and the present value of future installment premiums on financial guarantee policies.

(3) Estimated present value of future installments, net of ceding commissions, on policies written in credit derivative form only in 2009. At June 30, 2010 and December 31, 2009, the discount rate was 2.59% and 2.20%, respectively.

RAM has posted its second quarter 2010 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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