RAM Holdings Ltd. Announces Third Quarter 2010 Net Loss Available to Common Shareholders of $2.8 Million

HAMILTON, Bermuda--(BUSINESS WIRE)-- RAM Holdings Ltd. (BSX:RAMR) (Pink Sheets:RAMR.PK) ("RAM" or the "Company") today reported third quarter 2010 net loss available to common shareholders of $2.8 million, or a net loss of $0.11 per diluted share. This compares to net income of $26.8 million, or net income of $1.02 per diluted share, for the third quarter 2009. Net income available to common shareholders for the nine months ended September 30, 2010, was $25.3 million or net income of $0.96 per diluted share, compared to net income of $20.3 million or $0.76 per diluted share for the nine months ended September 30, 2009.

Commenting on the financial results, RAM Chief Executive Officer David Steel noted that, "Our third quarter net loss was largely driven by an increase in the unrealized losses on our reinsured credit derivative portfolio. For the first nine months of 2010, our net income was largely driven by gains on the previously announced repurchases of the Company's unsecured senior notes and a portion of the Series A preference shares. In our view, the Company's operating income for the third quarter and first nine months of 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 (loss) income for the three and nine months ended September 30, 2010, was $(2.8) million and $25.3 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 earnings, 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 third quarter of 2010, operating income was $2.2 million, or $0.08 per diluted share, compared to operating income of $2.4 million, or $0.09 per diluted share in the third quarter 2009. Operating income for the first nine months of 2010 was $0.6 million or $0.03 per diluted share, compared to an operating loss of $19.5 million or $0.74 per diluted share for the first nine months of 2009.

Earned premiums in the third quarter 2010 of $3.6 million were 53% lower than the $7.7 million earned in the third quarter of 2009. By eliminating accelerated premiums from refundings of $0.3 million from total earned premiums, normal earned premiums in the third quarter 2010 were $3.3 million, which was 3% higher than the comparative 2009 period, which included accelerated premiums from refundings of $4.5 million. Earned premiums for the first nine months of 2010 were $11.5 million, including accelerated premiums from refundings of $1.5 million. Earned premiums for the first nine months of 2010 were 51% lower than the $23.4 million of earned premiums for the first nine months of 2009, which included accelerated premiums from refundings of $10.4 million. After eliminating accelerated premiums from refundings, earned premiums for the first nine months of 2010 and 2009, were $10.0 million and $13.0 million, respectively. This reduction primarily reflects the reduction in ongoing earnings due to the commutation of a treaty with Ambac Assurance Corporation ("Ambac") in the first quarter of 2009.

Net change in fair value of credit derivatives totaled a loss of $6.6 million in the third quarter 2010, which was $32.9 million less than the $26.3 million gain in the third quarter of 2009. Net change in fair value of credit derivatives for the third quarters of 2010 and 2009 were comprised of $(7.5) million and $25.2 million of unrealized gains (losses) on derivatives, respectively, and $0.9 million and $1.1 million of realized gains, respectively. The net unrealized loss in the third quarter 2010 was primarily attributable to: (i) the decrease in the adjustment for RAM's own non-performance risk of $9.6 million, partially offset by (ii) the decrease in gross unrealized losses on credit derivative policies of $2.1 million, primarily due to improvements in pricing on the residential mortgage backed securities ("RMBS") portion 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 $119.8 million at September 30, 2010. Net change in fair value of credit derivatives for the first nine months of 2010 and 2009 were $(2.7) million and $29.8 million, respectively.

Net investment income for the third quarter 2010 was $2.7 million, 21% below the $3.4 million recorded in the third quarter of 2009. For the first nine months of 2010, net investment income was $8.7 million, 23% below the $11.3 million for the first nine months of 2009. The decrease in investment income in the third quarter and nine months ended September 30, 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"), Series A preference shares ("Series A Preference Shares") and Class B preference shares ("Class B Preference Shares") of RAM Reinsurance Company Ltd. ("RAM Re"), the operating subsidiary of the Company, during the first half of 2010.

Realized gains on investments for the third quarter 2010 were $0.4 million compared to $0.2 million in realized gains for the same period in 2009. Realized gains were offset by $nil and $0.1 million of other-than-temporary impairment losses for the third quarter of 2010 and 2009, respectively. For the first nine months of 2010 and 2009, realized gains on investments were $1.7 million and $8.3 million, respectively, offset by immaterial and $1.7 million of other-than-temporary impairment losses, respectively.

Net gains on extinguishment of debt of $15.3 million were recognized on the repurchase of the Company's remaining Notes during the first nine months of 2010. During the comparable 2009 period, the Company repurchased $5.0 million of its Notes, realizing a gain of $3.4 million. The Notes that were repurchased in each such period, were cancelled immediately after such repurchase. Gains of $11.5 million were recognized on the repurchase of 15,300 of the Company's Series A Preference Shares during the first nine months of 2010.

Losses and loss adjustment expenses were $0.5 million in the third quarter 2010, contributing to a loss ratio of 13%, compared to losses and loss adjustment expenses of $3.6 million and a loss ratio of 48% for the comparable 2009 period. For the first nine months of 2010, losses and loss adjustment expenses were $5.2 million, contributing to a loss ratio of 45% compared to losses of $16.9 million and a loss ratio of 72% for the comparable 2009 period. The improvement in the 2010 loss ratios is attributable to several factors including improved delinquency experience and an increase in representation and warranties repurchase credits on RAM's exposure to insured RMBS transactions.

Acquisition expenses were $1.6 million in the third quarter of 2010 compared to $3.5 million for the comparable 2009 period. The decrease in acquisition expenses for the third quarter of 2010 as compared to the comparable 2009 period was directly related to the decline in earned premiums. For the first nine months of 2010, acquisition expenses were $5.1 million, compared to $17.5 million for the comparable 2009 period. Acquisition expenses for the first nine months of 2010 were $12.4 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 the above items, acquisition expenses are closely related to earned premiums. Thus, the decrease in acquisition expenses in the first nine months of 2010 as compared to the comparable 2009 period was also due to the decrease in earned premiums in the period.

Third quarter 2010 operating expenses of $1.8 million were $1.3 million, or 42%, below the level in the third quarter of 2009. For the first nine months of 2010 and 2009, operating expenses were $9.4 million and $13.2 million, respectively. 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 $427.9 million at September 30, 2010, were $29.9 million, or 7%, below the level at December 31, 2009. This decrease is primarily related to the reduction in invested assets due to the payments for the repurchase of the Notes and a portion of the Series A Preference Shares of the Company along with a payment for the repurchase of a portion of the Class B Preference Shares of RAM Re. Shareholders' equity of $111.3 million was $35.5 million, or 47%, 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 nine months of 2010. Book value per share was $4.22, an increase of 46% from year-end 2009. Operating book value and adjusted operating book value per share, both of which are non-GAAP financial measures, were $5.67 and $9.31 respectively at September 30, 2010, an increase of 35% and 9%, respectively, from year-end 2009.

Subsequent Events:

On December 22, 2010, 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 in-force of $123.0 million as of September 30, 2010, primarily relating to RMBS 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 the Company in the fourth quarter of 2010.

In accordance with the terms of the Class B Preference Shares, RAM Re has called a special general meeting of holders of Class B Preference Shares to be held on February 14, 2011, for the purpose of electing two additional directors as directors of RAM Re. A copy of the proxy statement related to the meeting is available on the Company's website under "Investor Information — Annual Reports and Proxy Statements".

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 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; 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 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 1.80% at September 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 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 September 30, 2010 and December 31, 2009
(dollars in thousands)

	September 30, 2010	December 31, 2009
Assets		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized Cost: $312,627 and $338,380)	$ 324,831	$ 345,780
Cash and cash equivalents	3,860	9,311
Restricted cash	1,664	2,885
Accrued investment income	2,245	2,244
Reinsurance balances receivable, net	20,138	22,345
Recoverables on paid losses	17,243	11,353

Deferred policy acquisition costs	56,807	61,900
Deferred expenses	543	1,408
Other assets	571	600
Total Assets	$ 427,902	$ 457,826

Liabilities and Equity

Liabilities:		
Loss and loss expense reserve	$ 52,000	$ 56,672
Unearned premiums	141,697	153,430
Accounts payable and accrued liabilities	1,192	3,050
Accrued interest payable	-	619
Derivative liabilities	55,042	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 September 30, 2010 and December 31, 2009)	59,700	75,000
Total Liabilities	309,631	373,906
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 at December 31, 2009)	2,639	2,634
Additional paid-in capital	231,300	230,962
Accumulated other comprehensive income	17,857	7,400
Retained deficit	(140,536)	(165,190)
Total Shareholders' Equity	111,260	75,806
Noncontrolling interest - Class B preference shares of subsidiary	7,011	8,114
Total Equity	118,271	83,920
Total Liabilities and Equity	$ 427,902	$ 457,826

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

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2010	2009	2010	2009
Revenues				
Net premiums earned	$ 3,618	$ 7,654	$ 11,538	$ 23,371
Change in fair value of credit derivatives				
Realized gains (losses) and other settlements	909	1,124	463	3,119
Unrealized gains (losses)	(7,538)	25,165	(3,124)	26,671
Net change in fair value of credit derivatives	(6,629)	26,289	(2,661)	29,790
Net investment income	2,738	3,354	8,657	11,338
Net realized gains on sale of investments	359	222	1,666	8,274
Total other-than-temporary impairment losses	-	-	(32)	(4,938)
Portion of impairment losses recognized in other comprehensive income (loss)	-	(66)	23	266
Net other-than-temporary impairment losses (recognized in earnings)	-	(66)	(9)	(4,672)
Net unrealized loss on other financial instruments	-	-	-	(1,197)
Foreign currency gains (losses)	957	245	(22)	416
Net gain on extinguishment of redeemable preference shares	-	-	11,475	-
Net gain on extinguishment of long-term debt	-	-	15,250	3,403
Total revenues	**1,043**	**37,698**	**45,894**	**70,723**
Expenses				
Losses and loss adjustment expenses	457	3,649	5,189	16,858
Acquisition expenses	1,634	3,536	5,126	17,524
Operating expenses	1,772	3,139	9,411	13,246
Interest expense	-	584	918	1,885
Total expenses	**3,863**	**10,908**	**20,644**	**49,513**
Net income (loss) before noncontrolling interest	**$ (2,820)**	**$ 26,790**	**$ 25,250**	**$ 21,210**

Noncontrolling interest - dividends on preference shares of subsidiary	-	-	-	(922)
Net income (loss) available to common shareholders	**$ (2,820)**	**$ 26,790**	**$ 25,250**	**$ 20,288**
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

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

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2010	**2009**	**2010**	**2009**
Operating Income (Loss)				
Net income (loss) available to common shareholders	$ (2,820)	$ 26,790	$ 25,250	$ 20,288
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(359)	(156)	(1,657)	(3,602)
Less: Unrealized (gains) losses on credit derivatives	7,538	(25,165)	3,124	(26,671)
Add back: credit impairment on derivatives	(1,201)	1,222	634	(6,874)
Less: Foreign currency (gains) losses	(957)	(245)	22	(416)
Less: Gains on debt, preferred shares and other financial instruments	-	-	(26,725)	(2,206)
Operating Income (Loss)	$ 2,201	$ 2,446	$ 648	$ (19,481)
Net income (loss) per diluted share	$ (0.11)	$ 1.02	$ 0.96	$ 0.76
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(0.01)	(0.01)	(0.06)	(0.13)
Less: Unrealized (gains) losses on credit derivatives	0.29	(0.96)	0.12	(1.00)
Add back: credit impairment on derivatives	(0.05)	0.05	0.02	(0.26)
Less: Foreign currency (gains) losses	(0.04)	(0.01)	0.00	(0.02)
Less: Gains on debt, preferred shares and other financial instruments	0.00	0.00	(1.01)	(0.09)
Operating income (loss) per diluted share	$ 0.08	$ 0.09	$ 0.03	$ (0.74)

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

	As at Sept 30, 2010	As at Dec 31, 2009
Shares outstanding	26,395	26,340
Operating Book Value		
Shareholders' Equity (Book Value)	111,260	75,806
Derivative Liability (1)	52,062	48,938
Add back credit impairments on derivatives	(13,744)	(14,377)
Operating book value per share	5.67	4.19
Noncontrolling interest	7,011	8,114
Unearned premiums (2)	143,246	155,262
Deferred Acquisition Costs	(56,807)	(61,900)
Present Value of Installment Premiums (3)	20,464	21,028
Unrealized Gains on Investments	(17,857)	(7,400)
Adjusted Operating Book Value Per Share	$ 9.31	$ 8.56

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

(2) Includes unearned premium balances on credit derivative policies. Includes 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. September 30, 2010 and December 31, 2009, the discount rate was 1.80% and 2.20%, respectively.

RAM has posted its third 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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