

Maiden Holdings, Ltd.  
Form 10-Q  
November 09, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended September 30, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-34042

MAIDEN HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda  
(State or other jurisdiction of  
incorporation or organization)

98-0570192  
(IRS Employer Identification No.)

131 Front Street, Hamilton, Bermuda  
(Address of principal executive offices)

HM12  
(Zip Code)

(441) 298-4900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Yes  No

As of November 8, 2010, the Registrant had one class of Common Shares (\$.01 par value),  
of which 72,105,885 shares were issued and outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

MAIDEN HOLDINGS, LTD.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)

|   | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009<br>(Audited) |
|---|--------------------------------------|-----------------------------------|
| <b>ASSETS</b>   |                                      |                                   |
| Investments:  |                                      |                                   |
| Fixed maturities, available for sale, at fair value (Amortized cost 2010: \$1,505,431; 2009: \$1,623,382)   | \$ 1,582,372                         | \$ 1,661,692                      |
| Other investments, at fair value (Cost 2010: \$5,534; 2009: \$5,684)  | 5,531                                | 5,549                             |
| <b>Total investments</b>  | <b>1,587,903</b>                     | <b>1,667,241</b>                  |
| Cash and cash equivalents   | 269,486                              | 107,396                           |
| Restricted cash and cash equivalents  | 218,867                              | 144,944                           |
| Accrued investment income   | 11,335                               | 11,405                            |
| Reinsurance balances receivable, net (includes \$97,631 and \$43,382 from related parties in 2010 and 2009, respectively)   | 244,353                              | 211,338                           |
| Prepaid reinsurance   | 31,575                               | 28,752                            |
| Reinsurance recoverable on unpaid losses  | 6,000                                | 11,984                            |
| Loan to related party   | 167,975                              | 167,975                           |
| Deferred commission and other acquisition costs (includes \$114,154 and \$85,979 from related parties in 2010 and 2009, respectively)   | 187,241                              | 172,983                           |
| Other assets  | 15,290                               | 11,818                            |
| Intangible assets, net  | 46,928                               | 51,284                            |
| Goodwill  | 52,617                               | 52,617                            |
| <b>Total assets</b>   | <b>\$ 2,839,570</b>                  | <b>\$ 2,639,737</b>               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                                      |                                   |
| Liabilities   |                                      |                                   |
| Reserve for loss and loss adjustment expenses (includes \$244,491 and \$174,046 from related parties in 2010 and 2009, respectively)  | \$ 1,093,857                         | \$ 1,006,320                      |
| Unearned premiums (includes \$347,935 and \$264,751 from related parties in 2010 and 2009, respectively)  | 628,232                              | 583,478                           |
| Accrued expenses and other liabilities  | 74,265                               | 62,887                            |
| Securities sold under agreements to repurchase, at contract value   | 69,674                               | 95,401                            |
| Junior subordinated debt  | 215,173                              | 215,125                           |
| <b>Total liabilities</b>  | <b>2,081,201</b>                     | <b>1,963,211</b>                  |
| Commitments and Contingencies   |                                      |                                   |
| Shareholders' equity  |                                      |                                   |
| Common shares (\$0.01 par value; 73,068,030 and 71,253,625 shares issued in 2010 and 2009, respectively; 72,105,694 and 70,291,289 shares outstanding in 2010 and 2009, respectively) | 731                                  | 713                               |
| Additional paid-in capital  | 576,813                              | 576,086                           |
| Accumulated other comprehensive income  | 76,938                               | 32,747                            |
| Retained earnings   | 107,688                              | 70,781                            |

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|  |              |              |
|--|--------------|--------------|
| Treasury shares, at cost (2010 and 2009: 962,336 shares) | (3,801)      | (3,801)      |
| Total shareholders' equity                               | 758,369      | 676,526      |
| Total liabilities and shareholders' equity               | \$ 2,839,570 | \$ 2,639,737 |

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.  
 CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME  
 (In Thousands of United States Dollars, Except Per Share Data)  
 (Unaudited)

|   | For the Three<br>Months Ended<br>September 30,<br>2010 | For the Three<br>Months Ended<br>September 30,<br>2009 | For the Nine<br>Months Ended<br>September 30,<br>2010 | For the Nine<br>Months Ended<br>September 30,<br>2009 |
|---|--|--|---|---|
| <b>Revenues:</b>  |  |  |   |   |
| Gross premiums written  | \$ 289,815   | \$ 221,400   | \$ 951,981  | \$ 796,304  |
| Net premiums written  | \$ 273,435   | \$ 221,400   | \$ 897,776  | \$ 796,304  |
| Change in unearned premiums   | 36,158   | 15,950   | (40,470)  | (125,021)   |
| Net earned premium  | 309,593  | 237,350  | 857,306   | 671,283   |
| Net investment income   | 17,500   | 16,778   | 53,956  | 46,150  |
| Net realized and unrealized investment gains (losses)                               | 1,627  | (66)   | 2,474   | (462)   |
| <b>Total revenues</b>   | <b>328,720</b>   | <b>254,062</b>   | <b>913,736</b>  | <b>716,971</b>  |
| <b>Expenses:</b>  |  |  |   |   |
| Loss and loss adjustment expenses   | 200,625  | 165,123  | 546,264   | 462,468   |
| Commission and other acquisition expenses   | 88,956   | 55,313   | 254,799   | 159,608   |
| Other operating expenses  | 10,840   | 8,059  | 28,876  | 22,726  |
| Subordinated debt interest expense  | 9,117  | 9,114  | 27,348  | 25,316  |
| Amortization of intangible assets   | 1,452  | 1,676  | 4,356   | 4,915   |
| Foreign exchange (gains) losses   | (1,187)  | (210)  | 380   | (2,401)   |
| <b>Total expenses</b>   | <b>309,803</b>   | <b>239,075</b>   | <b>862,023</b>  | <b>672,632</b>  |
| Income before income taxes  | 18,917   | 14,987   | 51,713  | 44,339  |
| <b>Income taxes:</b>  |  |  |   |   |
| Current tax expense   | 100  | -  | 100   | -   |
| Deferred tax expense  | 291  | -  | 881   | -   |
| Income tax expense  | 391  | -  | 981   | -   |
| <b>Net income</b>   | <b>\$ 18,526</b>                                       | <b>\$ 14,987</b>                                       | <b>\$ 50,732</b>                                      | <b>\$ 44,339</b>                                      |
| <b>Comprehensive income:</b>  |  |  |   |   |
| Net income  | \$ 18,526  | \$ 14,987  | \$ 50,732   | \$ 44,339   |
| <b>Other comprehensive income</b>   |  |  |   |   |
| Net unrealized holdings gains arising during the period                             | \$ 23,021  | \$ 48,148  | \$ 51,329   | \$ 77,154   |
| Adjustment for reclassification of realized (gains) losses recognized in net income | (3,572)  | 66   | (7,138)   | 462   |
| Other comprehensive income  | \$ 19,449  | \$ 48,214  | \$ 44,191   | \$ 77,616   |
| <b>Comprehensive income</b>   | <b>\$ 37,975</b>                                       | <b>\$ 63,201</b>                                       | <b>\$ 94,923</b>                                      | <b>\$ 121,955</b>                                     |
| Basic earnings per common share   | \$ 0.26  | \$ 0.21  | \$ 0.72   | \$ 0.64   |
| Diluted earnings per common share   | \$ 0.26  | \$ 0.21  | \$ 0.72   | \$ 0.63   |
| Dividends declared per common share   | \$ 0.065   | \$ 0.06  | \$ 0.195  | \$ 0.18   |

For the Three      For the Three      For the Nine      For the Nine

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|   | Months Ended<br>September 30,<br>2010 | Months Ended<br>September 30,<br>2009 | Months Ended<br>September 30,<br>2010 | Months Ended<br>September 30,<br>2009 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Net realized and unrealized investment gains (losses):      |                                       |                                       |                                       |                                       |
| Total other-than-temporary impairment losses                | \$ -                                  | \$ -                                  | \$ -                                  | \$ -                                  |
| Portion of loss recognized in other comprehensive income    | -                                     | -                                     | -                                     | -                                     |
| Net impairment losses recognized in earnings                | -                                     | -                                     | -                                     | -                                     |
| Other net realized and unrealized investment gains (losses) | 1,627                                 | (66)                                  | 2,474                                 | (462)                                 |
| Net realized and unrealized investment gains (losses)       | \$ 1,627                              | \$ (66)                               | \$ 2,474                              | \$ (462)                              |

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
 (In Thousands of United States Dollars)  
 (Unaudited)

|   | For the Nine<br>Months Ended<br>September 30,<br>2010 | For the Nine<br>Months Ended<br>September 30,<br>2009 |
|---|---|---|
| Common shares                                   |   |   |
| Balance – beginning of period                   | \$ 713  | \$ 596  |
| Exercise of options and issuance of shares, net | 18  | 117   |
| Balance – end of period                         | 731   | 713   |
| Additional paid-in capital                      |   |   |
| Balance – beginning of period                   | 576,086   | 530,519   |
| Exercise of options and issuance of shares, net | 43  | 44,928  |
| Exchange of warrants for common shares          | (18)  | –   |
| Share based compensation                        | 702   | 444   |
| Balance – end of period                         | 576,813   | 575,891   |
| Accumulated other comprehensive income (loss)   |   |   |
| Balance – beginning of period                   | 32,747  | (44,499)  |
| Net unrealized gains on securities              | 44,191  | 77,616  |
| Balance – end of period                         | 76,938  | 33,117  |
| Retained earnings                               |   |   |
| Balance – beginning of period                   | 70,781  | 26,944  |
| Net income                                      | 50,732  | 44,339  |
| Dividends on common shares                      | (13,825)  | (12,652)  |
| Balance – end of period                         | 107,688   | 58,631  |
| Treasury shares                                 |   |   |
| Balance – beginning of period                   | (3,801)   | (3,801)   |
| Shares repurchased                              | –   | –   |
| Balance – end of period                         | (3,801)   | (3,801)   |
| Total Shareholders' Equity                      | \$ 758,369  | \$ 664,551  |

See accompanying notes to the unaudited condensed consolidated financial statements.



MAIDEN HOLDINGS, LTD.  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(In Thousands of United States Dollars)  
(Unaudited)

|   | For the Nine<br>Months Ended<br>September 30,<br>2010 | For the Nine<br>Months Ended<br>September 30,<br>2009 |
|---|---|---|
| Cash flows from operating activities:   |   |   |
| Net income  | \$ 50,732   | \$ 44,339   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:                         |   |   |
| Depreciation and amortization of intangibles  | 5,370   | 5,426   |
| Net realized and unrealized (gain) loss on investments  | (2,474)   | 462   |
| Foreign exchange losses (gains) on revaluation  | 380   | (2,401)   |
| Amortization of share-based compensation expense, bond premium and discount and trust preferred securities discount | (4,313)   | (4,615)   |
| Changes in assets - (increase) decrease:  |   |   |
| Reinsurance balances receivable, net  | (46,938)  | (169,244)   |
| Prepaid reinsurance   | (2,823)   | -   |
| Accrued investment income   | 70  | (695)   |
| Deferred commission and other acquisition costs   | (14,258)  | (66,604)  |
| Other assets  | (3,570)   | (1,702)   |
| Changes in liabilities – increase (decrease):   |   |   |
| Reserve for loss and loss adjustment expenses, net  | 93,525  | 72,706  |
| Unearned premiums   | 44,754  | 125,022   |
| Accrued expenses and other liabilities  | (6,238)   | (13,896)  |
| Net cash provided by (used in) operating activities   | 114,217   | (11,202)  |
| Cash flows from investing activities:   |   |   |
| Purchases of investments:   |   |   |
| Purchases of fixed-maturity securities – available-for-sale   | (408,765)   | (739,006)   |
| Purchases of fixed-maturity securities – trading  | (918,476)   | -   |
| Purchases of other investments  | (136)   | (138)   |
| Sale of investments:  |   |   |
| Proceeds from sales of fixed-maturity securities – available-for-sale   | 113,136   | 153,991   |
| Proceeds from sales of fixed-maturity securities – trading and short sales  | 967,548   | -   |
| Proceeds from maturities and calls of fixed-maturity securities   | 409,061   | 263,832   |
| Proceeds from redemption of other investments   | 38  | 127   |
| (Increase) decrease in restricted cash and cash equivalents   | (73,923)  | 190,682   |
| Acquisition of subsidiary (net of cash required)  | -   | (13,613)  |
| Purchase of capital assets  | (916)   | (122)   |
| Net cash provided by (used in) investing activities   | 87,567  | (144,247)   |
| Cash flows from financing activities:   |   |   |
| Repurchase agreements, net  | (25,727)  | (126,630)   |
| Common share issuance   | 43  | 117   |
| Junior subordinated debt issuance   | -   | 260,000   |
| Junior subordinated debt issuance cost  | -   | (4,342)   |

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|  |            |             |
|--|------------|-------------|
| Dividend paid  | (13,707)   | (11,950)    |
| Net cash (used in) provided by financing activities                        | (39,391)   | 117,195     |
| Effect of exchange rate changes on foreign currency cash                   | (303)      | 939         |
| Net increase (decrease) in cash and cash equivalents                       | 162,090    | (37,315)    |
| Cash and cash equivalents, beginning of period                             | 107,396    | 131,897     |
| Cash and cash equivalents, end of period                                   | \$ 269,486 | \$ 94,582   |
| Supplemental information on cash flows                                     |            |             |
| Cash paid for interest   | \$ 27,300  | \$ 17,694   |
| Reinsurance balances receivables   | 17,806     | –           |
| Investments - fixed maturity securities                                    | (17,806)   | –           |
| Supplemental information about non-cash investing and financing activities |            |             |
| Discount on junior subordinated debt                                       | \$ –       | \$ (44,928) |
| Additional paid in Capital   | –          | 44,928      |
| Common shares issued in exchange of warrants                               | 18         | –           |
| Additional paid in Capital   | (18)       | –           |
| Redemption of other investment   | 4,751      | –           |
| Purchase of other investment   | (4,751)    | –           |

See accompanying notes to the unaudited condensed consolidated financial statements.

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

1. Basis of Presentation – Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements include the accounts of Maiden Holdings, Ltd. and its subsidiaries and have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the U.S. Securities and Exchange Commission (“SEC”). Accordingly they do not include all of the information and footnotes required by GAAP for complete financial statements. All significant inter-company transactions and accounts have been eliminated in the consolidated financial statements.

These interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

These unaudited condensed consolidated financial statements, including these notes, should be read in conjunction with the Company’s audited consolidated financial statements, and related notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

There were no material changes in the application of our critical accounting estimates subsequent to that report. However, the Company is amending its disclosure with regard to Fair Value of Financial Instruments to include the following:

- For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. To date we have only included U.S. government fixed maturity investments as Level 1. The Company receives the quoted market prices from a third party, nationally recognized pricing service (“Pricing Service”). When quoted market prices are unavailable, the Company utilizes the Pricing Service to determine an estimate of fair value. The fair value estimates are included in the Level 2 hierarchy. The Pricing Service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. The Pricing Service’s evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing, to prepare evaluations. In addition, the Pricing Service uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and develop prepayment scenarios. The market inputs that the Pricing Service normally seeks for evaluations of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.
- The Company utilizes the fair values received from the Pricing Service. If quoted market prices and an estimate from the Pricing Service are unavailable, the Company produces an estimate of fair value based on dealer quotations for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy. Approximately 97% of the Company’s fixed maturity investments are categorized as

Level 2 within the fair value hierarchy. At September 30, 2010 and December 31, 2009, we have not adjusted any prices provided by the Pricing Service.

- The Company will challenge any prices for its investments that are not considered to represent fair value. If a fair value is challenged, the Company will obtain a non-binding quote from a broker-dealer; multiple quotations are not typically sought. As of September 30, 2010 and December 31, 2009, only one security was priced using the market approach at approximately \$8,595 and \$7,948, respectively, using a quotation from a broker as opposed to the Pricing Service. At September 30, 2010 and December 31, 2009, we have not adjusted any pricing provided by the broker-dealers based on the review performed by our investment managers.

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

1. Basis of Presentation – Summary of Significant Accounting Policies (continued)

- To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. In addition, our process to validate the market prices obtained from the Pricing Service includes, but is not limited to, periodic evaluation of model pricing methodologies and analytical reviews of certain prices. We also periodically perform testing of the market to determine trading activity, or lack of trading activity, as well as evaluating the variability of market prices. Securities sold during the quarter are also “back-tested” (i.e., the sales prices are compared to the previous month end reported market price to determine the reasonableness of the reported market price). There were no material differences between the prices from the Pricing Service and the prices obtained from our validation procedures as of September 30, 2010 and December 31, 2009.

Certain reclassifications have been made for 2009 to conform to the 2010 presentation and have no impact on net income previously reported.

2. Recent Accounting Pronouncements

Adoption of new accounting pronouncements

On June 12, 2009, the FASB issued FASB Statement No. 166, “Accounting for Transfers of Financial Assets,” an amendment of FASB Statement 140 and the FASB subsequently codified it as Accounting Standard Update (“ASU”) 2009-16, updating Accounting Standards Codification (“ASC”) Topic 860 “Transfers and Servicing” and it requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor’s beneficial interest) and liabilities incurred as a result of financial assets accounted for as a sale. It is a revision to FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” and requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 is effective on a prospective basis in fiscal years beginning on or after November 15, 2009 and interim periods within those fiscal years. The adoption of ASU 2009-16 did not have a material impact on the Company’s consolidated results of operations and financial condition.

On June 12, 2009, the FASB issued FASB Statement No. 167, “Amendments to FASB Interpretation No. 46(R)” and the FASB subsequently codified as ASU 2009-17, updating ASC Topic 810 “Consolidation” and it requires an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity. It determines whether a reporting entity is required to consolidate another entity based on, among other things, the other entity’s purpose and design and the reporting entity’s ability to direct the activities of the other entity that most significantly impact the other entity’s economic performance. ASU 2009-17 is effective on a prospective basis in fiscal years beginning on or after November 15, 2009, and interim periods within those fiscal years. The adoption of ASU 2009-17 did not have a material impact on the Company’s consolidated results of operations and financial condition.

New accounting pronouncements issued during 2010 impacting the Company are as follows:

In February 2010, the FASB issued ASU 2010-09, which requires SEC filers to evaluate subsequent events through the date the financial statements are issued. It exempts SEC filers from disclosing the date through which subsequent events have been evaluated.

On January 21, 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements (“ASU 2010-06”). ASU 2010-06 amends ASC 820, Fair Value Measurements and Disclosures (“ASC 820”), to require a number of additional disclosures regarding fair value measurements. ASU 2010-06 specifically requires the disclosure of the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers, the reasons for any transfers in or out of Level 3 and the disclosure of information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlement on a gross basis. ASU 2010-06 also amends ASC 820 to clarify that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities. ASU 2010-06 also clarified the requirement for entities to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of ASU 2010-06 did not have a material impact on the Company’s consolidated results of operations and financial condition.

## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

## 2. Recent Accounting Pronouncements (continued)

In October 2010, the FASB issued Accounting Standards Update No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" ("ASU 2010-26"). ASU 2010-26 modifies the types of costs that may be deferred, allowing insurance companies to only defer costs directly related to a successful contract acquisition or renewal. These costs include incremental direct costs of successful contracts, the portion of employees' salaries and benefits related to time spent on acquisition activities for successful contracts and other costs incurred in the acquisition of a contract. Additional disclosure of the type of acquisition costs capitalized is also required. ASU 2010-26 is effective on prospective basis for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted as of the beginning of a company's annual period. We are currently evaluating the impact of the adoption of ASU 2010-26 on our consolidated results of operations and financial condition.

## 3. Investments

## (a) Fixed Maturities and Other Investments

The original or amortized cost, estimated fair value and gross unrealized gains and losses of available-for-sale fixed maturities and other investments as of September 30, 2010 and December 31, 2009 are as follows:

|   | Original or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|----------------------------------|------------------------------|-------------------------------|---------------|
| As at September 30, 2010                      |                                  |                              |                               |               |
| Fixed Maturities:                             |                                  |                              |                               |               |
| U.S. treasury bonds                           | \$ 43,620                        | \$ 1,615                     | \$ –                          | \$ 45,235     |
| U.S. agency bonds – mortgage and asset-backed | 678,868                          | 27,538                       | (34)                          | 706,372       |
| U.S. agency bonds – other                     | 67,707                           | 2,350                        | –                             | 70,057        |
| Corporate fixed maturities                    | 674,200                          | 57,780                       | (13,770)                      | 718,210       |
| Municipal bonds                               | 41,036                           | 1,483                        | (21)                          | 42,498        |
| Total available-for-sale fixed maturities     | 1,505,431                        | 90,766                       | (13,825)                      | 1,582,372     |
| Other investments                             | 5,534                            | –                            | (3)                           | 5,531         |
| Total investments                             | \$ 1,510,965                     | \$ 90,766                    | \$ (13,828)                   | \$ 1,587,903  |

|   | Original or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|----------------------------------|------------------------------|-------------------------------|---------------|
| As at December 31, 2009                       |                                  |                              |                               |               |
| Fixed Maturities:                             |                                  |                              |                               |               |
| U.S. treasury bonds                           | \$ 39,297                        | \$ 224                       | \$ (283)                      | \$ 39,238     |
| U.S. agency bonds – mortgage and asset-backed | 779,400                          | 17,504                       | (2,321)                       | 794,583       |
| U.S. agency bonds – other                     | 217,192                          | 4,772                        | (447)                         | 221,517       |
| Corporate fixed maturities                    | 564,750                          | 37,985                       | (20,071)                      | 582,664       |
| Municipal bonds                               | 22,743                           | 947                          | –                             | 23,690        |
| Total available-for-sale fixed maturities     | 1,623,382                        | 61,432                       | (23,122)                      | 1,661,692     |
| Other investments                             | 5,684                            | –                            | (135)                         | 5,549         |

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|                   |              |           |             |              |
|-------------------|--------------|-----------|-------------|--------------|
| Total investments | \$ 1,629,066 | \$ 61,432 | \$ (23,257) | \$ 1,667,241 |
|-------------------|--------------|-----------|-------------|--------------|

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## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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## 3. Investments (continued)

The contractual maturities of our fixed maturities as of September 30, 2010 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment.

| As at September 30, 2010<br>Maturity   | Amortized Cost | Fair Value   | % of Total Fair Value |
|--|----------------|--------------|-----------------------|
| Due in one year or less                | \$ 96,058      | \$ 97,109    | 6.1%                  |
| Due after one year through five years  | 170,587        | 175,276      | 11.1%                 |
| Due after five years through ten years | 489,368        | 525,110      | 33.2%                 |
| Due after ten years                    | 70,550         | 78,505       | 5.0%                  |
|  | 826,563        | 876,000      | 55.4%                 |
| Mortgage and asset-backed securities   | 678,868        | 706,372      | 44.6%                 |
| Total                                  | \$ 1,505,431   | \$ 1,582,372 | 100.0%                |

The following tables summarize our available-for-sale securities and other investments in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

| As at September 30, 2010                      | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| Available-for-sale securities:                |                     |                   |                   |                   |            |                   |
| U.S. treasury bonds                           | \$ -                | \$ -              | \$ -              | \$ -              | \$ -       | \$ -              |
| U.S. agency bonds – mortgage and asset-backed | 2,517               | (28)              | 1,869             | (6)               | 4,386      | (34)              |
| U.S. agency bonds - other                     | -                   | -                 | -                 | -                 | -          | -                 |
| Corporate fixed maturities                    | 36,608              | (896)             | 153,445           | (12,874)          | 190,053    | (13,770)          |
| Municipal bonds                               | 9,168               | (21)              | -                 | -                 | 9,168      | (21)              |
|   | 48,293              | (945)             | 155,314           | (12,880)          | 203,607    | (13,825)          |
| Other investments                             | 4,751               | (3)               | -                 | -                 | 4,751      | (3)               |
| Total   | \$ 53,044           | \$ (948)          | \$ 155,314        | \$ (12,880)       | \$ 208,358 | \$ (13,828)       |

As of September 30, 2010, there were approximately 20 securities in an unrealized loss position with a fair value of \$208,358 and unrealized losses of \$13,828. Of these securities, there are 10 securities that have been in an unrealized loss position for 12 months or greater with a fair value of \$155,314 and unrealized losses of \$12,880.

| As at December 31, 2009        | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|--------------------------------|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|                                | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| Available-for-sale securities: |                     |                   |                   |                   |            |                   |

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|  |    |         |    |         |    |         |    |          |    |         |    |          |
|--|----|---------|----|---------|----|---------|----|----------|----|---------|----|----------|
| U.S. treasury bonds                              | \$ | 8,632   | \$ | (283)   | \$ | –       | \$ | –        | \$ | 8,632   | \$ | (283)    |
| U.S. agency bonds – mortgage<br>and asset-backed |    | 235,013 |    | (2,319) |    | 694     |    | (2)      |    | 235,707 |    | (2,321)  |
| U.S. agency bonds – other                        |    | 59,511  |    | (447)   |    | –       |    | –        |    | 59,511  |    | (447)    |
| Corporate fixed maturities                       |    | 11,687  |    | (619)   |    | 193,676 |    | (19,452) |    | 205,363 |    | (20,071) |
|  |    | 314,843 |    | (3,668) |    | 194,370 |    | (19,454) |    | 509,213 |    | (23,122) |
| Other investments                                |    | –       |    | –       |    | 4,864   |    | (135)    |    | 4,864   |    | (135)    |
| Total  | \$ | 314,843 | \$ | (3,668) | \$ | 199,234 | \$ | (19,589) | \$ | 514,077 | \$ | (23,257) |

## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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## 3. Investments (continued)

As of December 31, 2009, there were approximately 34 securities in an unrealized loss position with a fair value of \$514,077 and unrealized losses of \$23,257. Of these securities, there are 14 securities that have been in an unrealized loss position for 12 months or greater with a fair value of \$199,234 and unrealized losses of \$19,589.

## Other-Than-Temporary Impairments (“OTTI”)

We review our investment portfolio for impairment on a quarterly basis. Impairment of investments results in a charge to operations when a fair value decline below cost is deemed to be other-than-temporary. As of September 30, 2010, we reviewed our portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. During the three and nine month periods ended September 30, 2010 and 2009, the Company recognized no other than temporary impairment losses. Based on our qualitative and quantitative OTTI review of each asset class within our fixed maturity portfolio, the remaining unrealized losses on fixed maturities at September 30, 2010 were primarily due to widening of credit spreads relating to the market illiquidity, rather than credit events. Because it is more likely than not that we will not be required to sell these securities until a recovery of fair value to amortized cost, we currently believe it is probable that we will collect all amounts due according to their respective contractual terms. Therefore we do not consider these fixed maturities to be other-than-temporarily impaired at September 30, 2010.

## (b) Realized and unrealized gains and losses

Realized gains or losses on the sale of investments are determined on the basis of the first in first out cost method and include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. In 2010, the Company commenced designating upon acquisition, certain U.S. Treasury bonds as trading for the purpose of augmenting where possible investment returns. In addition, the Company maintained one open position in a U.S. Treasury bond sold but not yet purchased valued at \$54,274 which resulted in an unrealized loss of \$1,945 and \$4,664, which is recorded in net realized and unrealized gains (losses) on the Company’s consolidated statement of income for the three and nine months ended September 30, 2010, respectively. The following provides an analysis of realized and unrealized gains and losses for the three and nine months ended September 30, 2010 and 2009:

| For the Three Months Ended September 30, 2010 | Gross Gains | Gross losses | Net      |
|---|-------------|--------------|----------|
| Available-for-sale securities                 | \$ 3,612    | \$ (137)     | \$ 3,475 |
| Trading securities                            | 1,127       | (781)        | 346      |
| Other investments                             | –           | (249)        | (249)    |
| Realized gains (losses)                       | 4,739       | (1,167)      | 3,572    |
| Unrealized loss on short sales                | –           | (1,945)      | (1,945)  |
| Net realized and unrealized gains             | \$ 4,739    | \$ (3,112)   | \$ 1,627 |
| For the Nine Months Ended September 30, 2010  | Gross Gains | Gross losses | Net      |
| Available-for-sale securities                 | \$ 9,412    | \$ (1,756)   | \$ 7,656 |
| Trading securities                            | 1,649       | (1,918)      | (269)    |

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|                                   |    |        |            |          |
|-----------------------------------|----|--------|------------|----------|
| Other investments                 |    | –      | (249)      | (249)    |
| Realized gains (losses)           |    | 11,061 | (3,923)    | 7,138    |
| Unrealized loss on short sales    |    | –      | (4,664)    | (4,664)  |
| Net realized and unrealized gains | \$ | 11,061 | \$ (8,587) | \$ 2,474 |

| For the Three Months Ended September 30, 2009 |    | Gross Gains | Gross losses | Net     |
|---|----|-------------|--------------|---------|
| Available-for-sale securities                 | \$ | 270         | \$ (228)     | \$ 42   |
| Other investments                             |    | –           | (108)        | (108)   |
| Realized gains (losses)                       | \$ | 270         | \$ (336)     | \$ (66) |

## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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## 3. Investments (continued)

| For the Nine Months Ended September 30, 2009 | Gross Gains | Gross losses | Net      |
|--|-------------|--------------|----------|
| Available-for-sale securities                | \$ 4,168    | \$ (4,507)   | \$ (339) |
| Other investments                            | –           | (123)        | (123)    |
| Realized gains (losses)                      | \$ 4,168    | \$ (4,630)   | \$ (462) |

Proceeds from sales of fixed maturities classified as available-for-sale were \$113,136 and \$153,991 for the nine months ended September 30, 2010 and 2009, respectively.

Net unrealized gain (loss) on available-for-sale securities and other investments was as follows:

|  | September 30,<br>2010 | September 30,<br>2009 |
|--|-----------------------|-----------------------|
| Fixed maturities   | \$ 76,941             | \$ 35,000             |
| Other investments  | (3)                   | (178)                 |
| Total net unrealized gain (loss)                             | 76,938                | 34,822                |
| Deferred income tax expense                                  | –                     | (1,705)               |
| Net unrealized losses, net of deferred income tax            | \$ 76,938             | \$ 33,117             |
| Change in unrealized gain (loss), net of deferred income tax | \$ 44,191             | \$ 77,616             |

## (c) Restricted Cash and Investments

We are required to maintain assets on deposit to support our reinsurance operations and to serve as collateral for our reinsurance liabilities under various reinsurance agreements. The assets on deposit are available to settle reinsurance liabilities. We also utilize trust accounts to collateralize business with our reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trust as collateral are primarily cash and highly rated fixed maturity securities. The fair value of our restricted assets was as follows:

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| Restricted cash – third party agreements  | \$ 163,776            | \$ 133,029           |
| Restricted cash – related party agreements  | 54,828                | 11,485               |
| Restricted cash – U.S. state regulatory authorities   | 263                   | 430                  |
| Total restricted cash   | 218,867               | 144,944              |
| Restricted investments – in Trust for third party agreements at fair value (Amortized cost: 2010 – \$901,869; 2009 – \$1,011,582) | 948,158               | 1,022,337            |
| Restricted investments – in Trust for related party agreements at fair value (Amortized cost: 2010 – \$258,235; 2009 – \$177,537) | 287,418               | 195,474              |
| Restricted investments – in Trust for U.S. state regulatory authorities (Amortized cost: 2010 – \$13,305; 2009 – \$13,032)        | 14,026                | 12,867               |
| Total restricted investments  | 1,249,602             | 1,230,678            |
| Total restricted cash and investments   | \$ 1,468,469          | \$ 1,375,622         |



MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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3. Investments (continued)

(d) Other

The Company enters into repurchase agreements. The agreements are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or holds in short term or fixed income securities. As of September 30, 2010, there were \$69,674 principal amount outstanding at interest rate of 0.32%. Interest expense associated with these repurchase agreements was \$463 and \$818 for the three and nine months ended September 30, 2010, respectively (2009 - \$117 and \$900, respectively), out of which \$702 was accrued as of September 30, 2010 (December 31, 2009 - \$33). The Company has approximately \$69,674 of collateral pledged in support of these agreements.

Securities sold but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of September 30, 2010 were \$54,274 for a U.S. Treasury bond. This amount is included in accrued expenses and other liabilities in the condensed consolidated balance sheets. Collateral of an equivalent amount has been pledged to the clearing broker.

4. Fair Value of Financial Instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

In accordance with ASC 820, the Company determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 825, "Disclosure about Fair Value of Financial Instruments," requires all entities to disclose the fair value of their financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as of September 30, 2010.



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4. Fair Value of Financial Instruments (continued)

U.S. government and U.S. government agencies: Comprised primarily of bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The fair values of the Company's U.S. government securities are based on quoted market prices in active markets and are included in the Level 1 fair value hierarchy. The Company believes the market for U.S. Treasury securities is an actively traded market given the high level of daily trading volume. The fair values of U.S. government agency securities are generally priced by pricing services. The pricing services may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical models which may incorporate option adjusted spreads, daily interest rate data and market/sector news. The Company generally classifies the fair values of U.S. government agencies securities in Level 2.

Corporate debt: Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. These securities are generally priced by pricing services. The pricing services typically use discounted cash flow models that incorporate benchmark curves for treasury, swap and high issuance credits. Credit spreads are developed from current market observations for like or similar securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. The Company generally classifies the fair values of its corporate securities in Level 2.

Municipals: Municipal securities comprise bonds issued by U.S. domiciled state and municipality entities. The fair values of these securities are generally priced by pricing services. The pricing services typically use spreads obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the municipals are observable market inputs, municipals are classified within Level 2.

Other investments: The fair values of the hedge funds are based on the net asset value of the funds as reported by the fund manager, and as such, the fair values of those hedge funds are included in the Level 3 fair value hierarchy.

Reinsurance balance receivable: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value due to short term nature of the assets.

Loan to related party: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value.

Junior subordinated debt: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value.

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## 4. Fair Value of Financial Instruments (continued)

## (a) Fair Value Hierarchy

The following table presents the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of September 30, 2010 and December 31, 2009:

|   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total Fair<br>Value |
|---|--|---|--|---------------------|
| As at September 30, 2010                          |  |   |  |                     |
| Assets  |  |   |  |                     |
| Fixed maturities                                  |  |   |  |                     |
| U.S. treasury bonds                               | \$ 45,235  | \$ –  | \$ –   | \$ 45,235           |
| U.S. agency bonds – mortgage and<br>asset-backed  | –  | 706,372   | –  | 706,372             |
| U.S. agency bonds – other                         | –  | 70,057  | –  | 70,057              |
| Corporate fixed maturities                        | –  | 718,210   | –  | 718,210             |
| Municipal bonds                                   | –  | 42,498  | –  | 42,498              |
| Other investments                                 | –  | –   | 5,531  | 5,531               |
| Total   | \$ 45,235  | \$ 1,537,137  | \$ 5,531   | \$ 1,587,903        |
| As a percentage of total assets                   | 1.6%   | 54.1%   | 0.2%   | 55.9%               |
| Liabilities                                       |  |   |  |                     |
| Securities sold under agreements to<br>repurchase | \$ –   | \$ 69,674   | \$ –   | \$ 69,674           |
| Securities sold but not yet purchased             | –  | 54,274  | –  | 54,274              |
|   | \$ –   | \$ 123,948  | \$ –   | \$ 123,948          |
| As a percentage of total liabilities              | –  | 6.0%  | –  | 6.0%                |

|  | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total Fair<br>Value |
|--|--|---|--|---------------------|
| As at December 31, 2009                          |  |   |  |                     |
| Assets   |  |   |  |                     |
| Fixed maturities                                 |  |   |  |                     |
| U.S. treasury bonds                              | \$ 39,238  | \$ –  | \$ –   | \$ 39,238           |
| U.S. agency bonds – mortgage and<br>asset-backed | –  | 794,583   | –  | 794,583             |
| U.S. agency bonds – other                        | –  | 221,517   | –  | 221,517             |
| Corporate fixed maturities                       | –  | 582,664   | –  | 582,664             |
| Municipal bonds                                  | –  | 23,690  | –  | 23,690              |

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|  |    |        |    |           |    |       |    |           |
|--|----|--------|----|-----------|----|-------|----|-----------|
| Other investments                              |    | –      |    | –         |    | 5,549 |    | 5,549     |
| Total  | \$ | 39,238 | \$ | 1,622,454 | \$ | 5,549 | \$ | 1,667,241 |
| As a percentage of total assets                |    | 1.5%   |    | 61.5%     |    | 0.2%  |    | 63.2%     |
| <b>Liabilities</b>                             |    |        |    |           |    |       |    |           |
| Securities sold under agreements to repurchase | \$ | –      | \$ | 95,401    | \$ | –     | \$ | 95,401    |
| As a percentage of total liabilities           |    | –      |    | 4.9%      |    | –     |    | 4.9%      |

## MAIDEN HOLDINGS, LTD.

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## 4. Fair Value of Financial Instruments (continued)

## (b) Level 3 Financial Instruments

The following table presents changes in Level 3 for our financial instruments measured at fair value on a recurring basis for the three and nine months ended September 30, 2010 and 2009:

|   | Three Months<br>Ended<br>September 30,<br>2010 | Three Months<br>Ended<br>September 30,<br>2009 |
|---|--|--|
| Other Investments:  |  |  |
| Balance at beginning of period  | \$ 5,677                                       | \$ 5,392                                       |
| Net realized and unrealized gains – included in net income  | –  | –  |
| Net realized and unrealized losses – included in net income   | (249)  | (108)  |
| Change in net unrealized gains – included in other comprehensive income (loss)  | –  | –  |
| Change in net unrealized losses – included in other comprehensive income (loss)   | 122  | 244  |
| Purchases   | 4,764  | 1  |
| Sales and redemptions   | (4,783)  | –  |
| Transfers into Level 3  | –  | –  |
| Transfers out of Level 3  | –  | –  |
| Balance at end of period  | \$ 5,531                                       | \$ 5,529                                       |
| Level 3 gains (losses) included in net income attributable to the change in unrealized gains (losses) relating to assets held at the reporting date | \$ –   | \$ –   |
|   | Nine Months<br>Ended<br>September 30,<br>2010  | Nine Months<br>Ended<br>September 30,<br>2009  |
| Other Investments:  |  |  |
| Balance at beginning of period  | \$ 5,549                                       | \$ 5,291                                       |
| Net realized and unrealized gains – included in net income  | –  | –  |
| Net realized and unrealized losses – included in net income   | (249)  | (123)  |
| Change in net unrealized gains – included in other comprehensive income (loss)  | –  | –  |
| Change in net unrealized losses – included in other comprehensive income (loss)   | 133  | 350  |
| Purchases   | 4,887  | 139  |
| Sales and redemptions   | (4,789)  | (128)  |
| Transfers into Level 3  | –  | –  |
| Transfers out of Level 3  | –  | –  |
| Balance at end of period  | \$ 5,531                                       | \$ 5,529                                       |
|   | \$ –   | \$ –   |

Level 3 gains (losses) included in net income attributable to the change  
in unrealized gains (losses) relating to assets held at the reporting date

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## 5. Goodwill and Intangible Assets

## Goodwill

Goodwill is calculated as the excess of purchase price over the net fair value of assets acquired. The Company performs an annual impairment analysis to identify potential goodwill impairment and measures the amount of a goodwill impairment loss to be recognized. This annual test is performed during the fourth quarter of each year or more frequently if events or circumstances change in a way that requires the Company to perform the impairment analysis on an interim basis. Goodwill impairment testing requires an evaluation of the estimated fair value of each reporting unit to its carrying value, including the goodwill. An impairment charge is recorded if the estimated fair value is less than the carrying amount of the reporting unit. No impairments have been identified to date.

## Intangibles

Intangible assets consist of finite and indefinite life assets. Finite life intangible assets include customer and producer relationships and trademarks. Insurance company licenses are considered indefinite life intangible assets subject to annual impairment testing.

The following table shows an analysis of goodwill and intangible assets as of September 30, 2010 and December 31, 2009:

| As at September 30, 2010 | Gross      | Accumulated<br>Amortization | Net       | Useful Life               |
|--------------------------|------------|-----------------------------|-----------|---------------------------|
| Goodwill                 | \$ 52,617  | \$ –                        | \$ 52,617 | Indefinite                |
| State licenses           | 7,727      | –                           | 7,727     | Indefinite                |
| Customer relationships   | 51,400     | (12,199)                    | 39,201    | 15 years double declining |
| Net balance              | \$ 111,744 | \$ (12,199)                 | \$ 99,545 |                           |

| As at December 31, 2009 | Gross      | Accumulated<br>Amortization | Net        | Useful Life               |
|-------------------------|------------|-----------------------------|------------|---------------------------|
| Goodwill                | \$ 52,617  | \$ –                        | \$ 52,617  | Indefinite                |
| State licenses          | 7,727      | –                           | 7,727      | Indefinite                |
| Customer relationships  | 51,400     | (7,843)                     | 43,557     | 15 years double declining |
| Net balance             | \$ 111,744 | \$ (7,843)                  | \$ 103,901 |                           |

The goodwill and intangible assets were recognized in 2009 and 2008 as a result of the GMAC Acquisition and are assigned to Diversified Reinsurance segment. Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the three and nine months ended September 30, 2010. The estimated amortization expense for the next five years is:

|      |                       |
|------|-----------------------|
|      | September 30,<br>2010 |
| 2010 | \$ 1,452              |

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|      |       |
|------|-------|
| 2011 | 5,033 |
| 2012 | 4,362 |
| 2013 | 3,781 |
| 2014 | 3,276 |

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MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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6. Junior Subordinated Debt

On January 20, 2009, the Company completed a private placement of 260,000 units (the "Units" or the "TRUPS Offering"), each Unit consisting of \$1,000 principal amount of capital securities (the "Trust Preferred Securities") of Maiden Capital Financing Trust (the "Trust"), a special purpose trust established by Maiden Holdings North America, Ltd. ("Maiden NA"), and 45 common shares, \$0.01 par value, of the Company for a purchase price of \$1,000.45 per Unit. In the aggregate, we also issued 11,700,000 common shares to the purchasers in the TRUPS Offering. This resulted in gross proceeds to the Company of \$260,117, before \$4,342 of placement agent fees and expenses.

Certain trusts established by Michael Karfunkel and George Karfunkel, two of the Company's founding shareholders, purchased an aggregate of 159,000 of the Units or 61.12%. The remaining 101,000 Units were purchased by existing institutional shareholders of the Company.

The Trust used the proceeds from the sale of the Trust Preferred Securities to purchase a subordinated debenture (the "Debenture") in the principal amount of \$260,000 issued by Maiden NA.

Under the terms of the Trust Preferred Securities, the Company can repay the principal balance in full or in part at any time. However, if the Company repays such principal within five years of the date of issuance, it is required to pay an additional amount equal to one full year of interest on the amount of Trust Preferred Securities repaid. If the full amount of the Trust Preferred Securities were repaid within five years of the date of issuance, the additional amount due would be \$36,400, which would be a reduction in earnings.

Pursuant to separate Guarantee Agreements dated as of January 20, 2009 with Wilmington Trust Company, as guarantee trustee, each of the Company and Maiden NA has agreed to guarantee the payment of distributions and payments on liquidation or redemption of the Trust Preferred Securities.

As a consequence of the issuance of a majority of the Units to a related party under, ASC Topic 810 "Consolidation", the Trust is a variable interest entity and the Company is deemed not to be the Primary beneficiary of the Trust and therefore it is not consolidated. The issuance of common shares associated with the Trust Preferred Securities resulted in an original issuance discount of \$44,928 based on market price of \$3.85 on January 20, 2009. The discount is amortized over 30 years based on the effective interest method. The Debentures and Trust Preferred Securities mature in 2039 and carry a stated or coupon rate of 14% with an effective interest rate of 16.95%.

As of September 30, 2010, the stated value of the Trust Preferred Securities was \$215,173 which comprises the principal amount of \$260,000 and unamortized discount of \$44,827. Amortization expense for the three and nine months ended September 30, 2010 was \$17 and \$48, respectively (2009 - \$14 and \$38, respectively).

7. Shareholders' Equity

In connection with the formation by Michael Karfunkel, George Karfunkel and Barry Zyskind (the "Founding Shareholders"), the Company issued to the Founding Shareholders 10-year warrants (the "Warrants") to purchase up to an aggregate of 4,050,000 common shares of the Company at \$10 per share. The warrants are effective as of June 14, 2007 and were to expire on June 14, 2017. The warrants were initially valued by an independent appraisal at an



aggregate fair value of \$19,521 which was recorded as an addition to additional paid-in capital with an offsetting charge to additional paid-in capital as well.

On September 20, 2010, the Company entered into Warrant Exchange Agreements, under which each of the Founding Shareholders agreed to surrender the warrants in exchange for a total of 1,800,000 of the Company's common shares. These common shares are restricted under Lockup Agreements under which the Founding Shareholders may not sell or transfer the shares awarded without the prior written consent of the Company for a period of 36 months following the exchange. The fair value of the warrants at the time of exchange was \$2.06 per warrant or \$8,343 while the fair value of the 1,800,000 restricted common shares issued was \$4.56 per share or \$8,208. The terms of the exchange of the warrants and issuance of the common shares were negotiated and unanimously approved by the Audit and Compensation Committees of the Company's Board of Directors. In connection with their review, the Committees were advised by independent legal counsel and obtained an independent appraisal of the fair value of the warrants and the restricted common shares. The issuance of the restricted common shares was recorded as an offset to additional paid-in-capital where the warrants were originally recorded.

## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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## 8. Earnings Per Share

The following is a summary of the elements used in calculating basic and diluted earnings per share:

|  | Three Months<br>Ended<br>September 30,<br>2010 | Three Months<br>Ended<br>September 30,<br>2009 | Nine Months<br>Ended<br>September 30,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2009 |
|--|--|--|---|---|
| Net income available to common shareholders                    | \$ 18,526                                      | \$ 14,987                                      | \$ 50,732                                     | \$ 44,339                                     |
| Weighted average number of common shares outstanding – basic   | 70,493,545                                     | 70,287,664                                     | 70,359,688                                    | 69,430,521                                    |
| Potentially dilutive securities:                               |  |  |   |   |
| Warrants   | –  | –  | –   | –   |
| Share options  | 491,837  | 565,231  | 483,774                                       | 416,193                                       |
| Weighted average number of common shares outstanding – diluted | 70,985,382                                     | 70,852,895                                     | 70,843,462                                    | 69,846,714                                    |
| Basic earnings per common share:                               | \$ 0.26  | \$ 0.21  | \$ 0.72                                       | \$ 0.64                                       |
| Diluted earnings per common share:                             | \$ 0.26  | \$ 0.21  | \$ 0.72                                       | \$ 0.63                                       |

As of September 30, 2010, nil (2009 – 4,050,000) warrants and 1,756,961 (2009 – 638,000) share options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

## 9. Share Based Compensation

## Share Options

The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all share option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The adoption of ASC Topic 718 "Compensation - Stock Compensation" fair value method has resulted in share-based expense (a component of salaries and benefits) in the amount of approximately \$252 and \$702 for the three and nine months ended September 30, 2010, respectively (2009 – \$168 and \$444, respectively).

The key assumptions used in determining the fair value of options granted in the three and nine months ended September 30, 2010 and a summary of the methodology applied to develop each assumption are as follows:

## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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## 9. Share Based Compensation (continued)

| Assumptions:                             | September 30,<br>2010 |
|--|-----------------------|
| Volatility                               | 29.8-46.0%            |
| Risk-free interest rate                  | 2.36-3.30%            |
| Weighted average expected lives in years | 5-6.1 years           |
| Forfeiture rate                          | 0%                    |
| Dividend yield rate                      | 1-5.39%               |

Expected Price Volatility – This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. The common shares of Maiden Holdings, Ltd. began trading on May 6, 2008 on NASDAQ. Since the Company does not have enough history over which to calculate an expected volatility representative of the volatility over the expected lives of the options, the Company also considered the historical and current implied volatilities of a set of comparable companies in the industry in which the Company operates.

Risk-Free Interest Rate – This is the U.S. treasury rate for the week of the grant having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected Lives – This is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. The Company uses the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the period as historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of ten years. An increase in the expected life will increase compensation expense.

Forfeiture Rate – This is the estimated percentage of options granted that are expected to be forfeited or cancelled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense.

The following tables show all options granted, exercised, expired and exchanged under the Plan for the three and nine months ended September 30, 2010:

| Three Months Ended<br>September 30, 2010 | Number of<br>Share Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term |
|--|----------------------------|------------------------------------|---|
| Outstanding, June 30, 2010               | 2,381,230                  | \$ 6.01                            | 8.56 years  |
| Granted                                  | 22,500                     | 7.68                               | 10.00 years                                       |
| Exercised                                | (13,593)                   | 3.28                               | –   |
| Cancelled                                | (4,251)                    | 3.28                               | –   |
| Outstanding, September 30, 2010          | 2,385,886                  | \$ 6.05                            | 8.32 years  |

| Nine Months Ended<br>September 30, 2010 | Number of<br>Share Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term |
|---|----------------------------|------------------------------------|---|
|---|----------------------------|------------------------------------|---|

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|                                 |           |    |      |            |
|---------------------------------|-----------|----|------|------------|
| Outstanding, December 31, 2009  | 2,036,542 | \$ | 5.79 | 8.86 years |
| Granted                         | 372,500   |    | 7.28 | 9.46 years |
| Exercised                       | (14,405)  |    | 3.28 | —          |
| Cancelled                       | (8,751)   |    | 3.28 | —          |
| Outstanding, September 30, 2010 | 2,385,886 | \$ | 6.05 | 8.32 years |

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## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
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## 9. Share Based Compensation (continued)

The following tables show all options granted, exercised, expired and exchanged under the Plan for the three and nine months ended September 30, 2009:

| Three Months Ended<br>September 30, 2009 | Number of<br>Share Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term |
|--|----------------------------|------------------------------------|---|
| Outstanding, June 30, 2009               | 1,503,834                  | \$ 5.54                            | 9.08 years  |
| Granted                                  | 200,000                    | 4.54                               | 9.40 years  |
| Exercised                                | —                          | —                                  | —   |
| Cancelled                                | (10,500)                   | 3.28                               | —   |
| Outstanding, September 30, 2009          | 1,693,334                  | \$ 5.47                            | 8.90 years  |

| Nine Months Ended<br>September 30, 2009 | Number of<br>Share Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term |
|---|----------------------------|------------------------------------|---|
| Outstanding, December 31, 2008          | 1,519,834                  | \$ 10.00                           | 9.44 years  |
| Granted                                 | 384,000                    | 4.51                               | 9.40 years  |
| Exercised                               | —                          | —                                  | —   |
| Cancelled                               | (210,500)                  | 8.07                               | —   |
| Outstanding, September 30, 2009         | 1,693,334                  | \$ 5.47                            | 8.90 years  |

The weighted average grant date fair value was \$1.79 and \$1.50 for all options outstanding at September 30, 2010 and 2009, respectively. There was approximately \$2,324 and \$1,466 of total unrecognized compensation cost related to non-vested share-based compensation arrangements as of September 30, 2010 and 2009, respectively.

## 10. Dividends Declared

On August 5, 2010, the Company's Board of Directors approved a quarterly cash dividend of \$0.065 per common share. This dividend was paid on October 15, 2010 to shareholders of record on October 1, 2010.

## 11. Related Party Transactions

The Founding Shareholders of Maiden, Michael Karfunkel, George Karfunkel and Barry Zyskind, are also the principal shareholders, and, respectively, the Chairman of the Board of Directors, a Director, and the President, Chief Executive Officer and Director of AmTrust Financial Services, Inc. ("AmTrust"). In January 2009, Barry Karfunkel was hired as a managing director of capital investments of Maiden Re Insurance Services, LLC. Barry Karfunkel is the son of Michael Karfunkel and the brother-in-law of Barry D. Zyskind. Barry Karfunkel's employment ended in March 2010. The following describes transactions between the Company and AmTrust.

## AmTrust Quota Share Reinsurance Agreement

Effective July 1, 2007, the Company and AmTrust entered into a master agreement, as amended (the “Master Agreement”), by which they caused AmTrust’s Bermuda reinsurance subsidiary, AmTrust International Insurance, Ltd. (“AII”) and Maiden Insurance Company Ltd. (“Maiden Insurance” or “Maiden Bermuda”) to enter into the Reinsurance Agreement by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by subsidiaries of AmTrust, net of the cost of unaffiliated inuring reinsurance (and in the case of AmTrust’s U.K. insurance subsidiary, IGI Insurance Company Limited (“IGI”), net of commissions) and 40% of losses and (b) AII transferred to Maiden Insurance 40% of the AmTrust subsidiaries’ unearned premium reserves, effective as of July 1, 2007, with respect to the current lines of business, excluding risks for which the AmTrust subsidiaries’ net retention exceeds \$5,000 (“Covered Business”). AmTrust also has agreed to cause AII, subject to regulatory requirements, to reinsure any insurance company which writes Covered Business in which AmTrust acquires a majority interest to the extent required to enable AII to cede to Maiden Insurance 40% of the premiums and losses related to such Covered Business. The Agreement further provides that AII receives a ceding commission of 31% of ceded written premiums. The Reinsurance Agreement had an initial term of three years, which has been extended for three years through June 30, 2013, and will automatically renew for successive three year terms thereafter, unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty days notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders’ equity of Maiden Insurance or the combined shareholders’ equity of AII and the AmTrust subsidiaries.

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
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11. Related Party Transactions (continued)

On June 11, 2008, the Company and AmTrust amended the Reinsurance Agreement to add Retail Commercial Package Business to the Covered Business as a consequence of AmTrust's acquisition of Unitrin Business Insurance ("UBI"). Under the amendment, AmTrust's subsidiaries cede, upon collection, to Maiden 100% of \$82.2 million of unearned premium (net of inuring reinsurance) from the acquisition of UBI's in-force book of business. Additionally, AmTrust cedes to Maiden 40% of net premium written, effective as of June 1, 2008. Maiden will pay to AmTrust a ceding commission of 34.375% on the unearned premium cession and the Retail Commercial Package Business. The \$2,000 maximum liability for a single loss provided in the Quota Share Reinsurance Agreement shall not be applicable to Retail Commercial Package Business.

On February 9, 2009, AII and Maiden Insurance amended the Reinsurance Agreement to clarify that (i) AII would offer Maiden Insurance the opportunity to reinsure Excess Retention Business, which is defined as a policy issued by an AmTrust insurance subsidiary with respect to which the insurance subsidiary's retention is greater than \$5 million and (ii) the deduction for the cost of inuring reinsurance from Affiliate Subject Premium (as defined in the Reinsurance Agreement) retroceded to Maiden Insurance is net of ceding commission.

The Company recorded approximately \$37,501 and \$104,085 of ceding commission expense for the three and nine months ended September 30, 2010, respectively (2009 – \$28,132 and \$85,005, respectively) as a result of this transaction.

Other Reinsurance Agreements

Effective January 1, 2008 the Company and AmTrust entered into an agreement to reinsure a 45% participation in the \$9 million in excess of \$1 million layer of AmTrust's workers' compensation excess of loss program. This layer provides reinsurance to AmTrust for losses per occurrence in excess of \$1 million up to \$10 million, subject to an annual aggregate deductible of \$1.25 million. This participation was sourced through a reinsurance intermediary via open market placement in which competitive bids were solicited by an independent broker. The remaining 55% participation was placed with a single carrier.

This coverage expired on January 1, 2010; as a result, under the Master Agreement the Company therefore now reinsures 40% of the subject workers' compensation business up to \$10 million, subject to certain additional inuring reinsurance protection AmTrust has purchased.

As of January 1, 2008, the Company had a 50% participation in a \$4 million in excess of \$1 million specialty transportation program written by AmTrust. Starting January 1, 2009, we had a 30% participation in a \$4 million in excess of \$1 million specialty transportation program written by AmTrust. This program provides primarily commercial auto coverage and, to a lesser extent, general liability coverage to private non-emergency para-transit and school bus service operators. This participation was sourced through a reinsurance intermediary via open market placement in which competitive bids were solicited by an independent broker. Several other broker market reinsurers hold the other 50% and 70% participation for 2008 and 2009 policies, respectively. The agreement was not renewed as of January 1, 2010.

Effective September 1, 2010, the Company through its wholly-owned subsidiary, Maiden Specialty Insurance Company (“Maiden Specialty”), entered into a quota share reinsurance agreement with Technology Insurance Company, Inc., a subsidiary of AmTrust (“Technology”). Under the agreement, Maiden Specialty will cede 90% of its gross liability under all policies, certificates, contracts, binders and contracts of insurance, issued or renewed during the term of the agreement by or on behalf of Maiden Specialty under this program which is part of a larger program underwritten by Technology. Maiden Specialty’s involvement is limited to certain states where Technology is not fully licensed. The agreement also provides that Maiden Specialty receives a ceding commission of 5% of ceded written premiums. The reinsurance agreement has a term of three years and will remain continuously in force until terminated in accordance to the provisions set forth in the contract. To date, no business has been ceded under this quota share reinsurance agreement.



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11. Related Party Transactions (continued)

Collateral provided to AmTrust

In order to provide AmTrust's U.S. insurance subsidiaries with credit for reinsurance on their statutory financial statements, AII, as the direct reinsurer of the AmTrust's insurance subsidiaries, has established trust accounts ("Trust Accounts") for their benefit. Maiden Insurance has agreed to provide appropriate collateral to secure its proportional share under the Quota Share Agreement of AII's obligations to the AmTrust subsidiaries to whom AII is required to provide collateral. This collateral may be in the form of (a) assets loaned by Maiden Insurance to AII, for deposit into the Trust Accounts, pursuant to a loan agreement between those parties, (b) assets transferred by Maiden Insurance, for deposit into the Trust Accounts, (c) a letter of credit obtained by Maiden Insurance and delivered to an AmTrust subsidiary on AII's behalf (a "Letter of Credit"), or (d) premiums withheld by an AmTrust subsidiary at Maiden Insurance's request in lieu of remitting such premiums to AII ("Withheld Funds"). Maiden Insurance may provide any or a combination of these forms of collateral, provided that the aggregate value thereof equals Maiden Insurance's proportionate share of its obligations under the Quota Share Agreement with AII. If collateral is required to be provided to any AmTrust subsidiary under applicable law or regulatory requirements, Maiden Insurance will provide collateral to the extent required, although Maiden Insurance does not expect that such collateral will be required unless an AmTrust subsidiary is domiciled in the United States.

Maiden Insurance satisfied its collateral requirements under the Quota Share Agreement with AII as follows:

- by lending funds in the amount of \$167,975 as at September 30, 2010 and December 31, 2009 to AII pursuant to a loan agreement entered into between those parties. This loan is carried at cost. The amount of collateral Maiden Insurance is required to maintain, which is determined quarterly, equals its proportionate share of (a) the amount of ceded paid losses for which AII is responsible to such AmTrust subsidiaries but has not yet paid, (b) the amount of ceded loss reserves (including ceded reserves for claims reported but not resolved and losses incurred but not reported) for which AII is responsible to AmTrust subsidiaries, and (c) the amount of ceded reserves for unearned premiums ceded by AmTrust subsidiaries to AII. Pursuant to the Master Agreement, AmTrust has agreed to cause AII not to commingle Maiden Insurance's assets with AII's other assets and to cause the AmTrust subsidiaries not to commingle Maiden Insurance's assets with the AmTrust subsidiaries' other assets if an AmTrust subsidiary withdraws those assets. AII has agreed that, if an AmTrust subsidiary returns to AII excess assets withdrawn from a Trust Account, drawn on a Letter of Credit or maintained by such AmTrust subsidiary as Withheld Funds, AII will immediately return to Maiden Insurance its proportionate share of such excess assets. AII has further agreed that if the aggregate fair market value of the amount of Maiden Insurance's assets held in the Trust Account exceeds Maiden Insurance's proportionate share of AII's obligations, or if an AmTrust subsidiary misapplies any such collateral, AII will immediately return to Maiden Insurance an amount equal to such excess or misapplied collateral, less any amounts AII has paid to Maiden Insurance. In addition, if an AmTrust subsidiary withdraws Maiden Insurance's assets from a Trust Account and maintains those assets on its books as withheld funds, AII has agreed to pay to Maiden Insurance interest at the rate equivalent to the one-month London Interbank Offered Rate ("LIBOR") plus 90 basis points per annum computed on the basis of a 360-day year on the loan (except to the extent Maiden Insurance's proportionate share of AII's obligations to that AmTrust subsidiary exceeds the value of the collateral Maiden Insurance has provided), and net of unpaid fees Maiden Insurance owes to AII and its share of fees owed to the trustee of the Trust Accounts.

- effective December 1, 2008, the Company entered into a Reinsurer Trust Assets Collateral agreement to provide to AII sufficient collateral to secure its proportional share of AII's obligations to the U.S. AmTrust subsidiaries. The amount of the collateral, as at September 30, 2010 was approximately \$333,761 (December 31, 2009 – \$206,960) and the accrued interest was \$3,393 (December 31, 2009 – \$1,956).

#### Reinsurance Brokerage Agreements

Effective July 1, 2007, the Company entered into a reinsurance brokerage agreement with AII Reinsurance Broker Ltd., a subsidiary of AmTrust. Pursuant to the brokerage agreement, AII Reinsurance Broker Ltd. provides brokerage services relating to the Quota Share Reinsurance Agreement for a fee equal to 1.25% of the premium reinsured from AII. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd's brokerage services. AII Reinsurance Broker Ltd. is not the Company's exclusive broker. AII Reinsurance Broker Ltd. may, if mutually agreed, also produce reinsurance for the Company from other ceding companies, and in such cases the Company will negotiate a mutually acceptable commission rate. The Company recorded approximately \$1,509 and \$4,163 of reinsurance brokerage expense for the three and nine months ended September 30, 2010, respectively (2009 – \$1,118 and \$3,369, respectively) and deferred reinsurance brokerage of \$3,364 and \$3,265 as at September 30, 2010 and December 31, 2009, respectively, as a result of this agreement.

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11. Related Party Transactions (continued)

Effective April 1, 2008, the Company entered into brokerage services agreements with IGI Intermediaries Limited and IGI Inc. (“IGI”), both subsidiaries of AmTrust. Pursuant to the brokerage services agreements, IGI provides marketing services to us which includes providing marketing material to potential policyholders, providing us with market information on new trends and business opportunities and referring new brokers and potential policyholders to us. A fee equal to IGI’s costs in providing such services plus 8% is payable in consideration of IGI’s marketing services. The Company recorded approximately \$31 and \$86 of IGI fees, which is included in commission and other acquisition expenses, for the three and nine months ended September 30, 2010, respectively (2009 – \$55 and \$325, respectively).

Asset Management Agreement

Effective July 1, 2007 and as amended, the Company entered into an asset management agreement with AII Insurance Management Limited (“AIIM”), an AmTrust subsidiary, pursuant to which AIIM has agreed to provide investment management services to the Company. Pursuant to the asset management agreement, AIIM provides investment management services for an annual fee equal to 0.35% of average invested assets plus all costs incurred. Effective April 1, 2008, the investment management services annual fee has been reduced to 0.20% if the average value of the account is less than \$1 billion and 0.15% if the average value of the account is greater than \$1 billion. The Company recorded approximately \$650 and \$1,968 of investment management fees for the three and nine months ended September 30, 2010, respectively (2009 – \$721 and \$1,937, respectively), as a result of this agreement.

ACAC Quota Share Reinsurance Agreement

On March 1, 2010, the Company entered into a three year 25% quota share reinsurance agreement with American Capital Acquisition Corporation (“ACAC”).

ACAC is an insurance holding company owned by the 2005 Michael Karfunkel Grantor Retained Annuity Trust (the “Trust”), which in turn is controlled by Michael Karfunkel (“Karfunkel”), Karfunkel individually, and AmTrust. ACAC, on March 1, 2010, acquired from GMAC Insurance Holdings, Inc. and Motors Insurance Corporation (collectively, “GMAC”), GMAC’s personal lines automobile business. Karfunkel is a Founding Shareholder of the Company. In addition, Karfunkel is the chairman of the board of directors of ACAC.

The Company, effective March 1, 2010, reinsures 25% of the net premiums of the GMAC personal lines business, pursuant to a 50% quota share reinsurance agreement (“ACAC Quota Share”) with the GMAC personal lines insurance companies, as cedents, and the Company, MK Re, Ltd., a Bermuda reinsurer which is a wholly-owned indirect subsidiary of the Trust, and AmTrust, as reinsurers. The Company has a 50% participation in the ACAC Quota Share, by which it receives 25% of net premiums of the personal lines business. The ACAC Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, shall receive 50% of the net premium of the GMAC personal lines insurance companies and assume 50% of the related net losses. The ACAC Quota Share has an initial term of three years and shall renew automatically for successive three year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. Notwithstanding the foregoing, the Company’s participation in the Personal Lines Quota Share may be terminated by ACAC on 60 days written notice in the event the Company becomes insolvent, is placed into receivership, its financial condition is impaired by 50% of

the amount of its surplus at the inception of the ACAC Quota Share or latest anniversary, whichever is greater, is subject to a change of control, or ceases writing new and renewal business. ACAC also may terminate the agreement on nine months written notice following the effective date of initial public offering or private placement of stock by ACAC or a subsidiary. The Company may terminate its participation in the ACAC Quota Share on 60 days written notice in the event ACAC is subject to a change of control, cease writing new and renewal business, effects a reduction in their net retention without the Company's consent or fails to remit premium as required by the terms of the ACAC Quota Share. The ACAC Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment. The ceding commission is subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. We believe that the terms, conditions and pricing of the ACAC Quota Share have been determined by arm's length negotiations and reflect current market terms and conditions.

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## 11. Related Party Transactions (continued)

The Company recorded approximately \$15,089 and \$22,379 of ceding commission expense for the three and nine months ended September 30, 2010 as a result of this transaction.

## Warrant Exchange

Please see Note 7 to the consolidated financial statements.

## 12. Segments

The Company currently operates three business segments, Diversified Reinsurance, AmTrust Quota Share and ACAC Quota Share. The Company evaluates segment performance based on segment profit separately from the results of our investment portfolio. Other operating expenses allocated to the segments are called General and Administrative expenses which are allocated on an actual basis except salaries and benefits where management's judgment is applied; the Company does not allocate general corporate expenses to the segments. In determining total assets by segment the Company identifies those assets that are attributable to a particular segment such as reinsurance receivable, deferred commissions and acquisition cost, loans, goodwill and intangibles, and restricted cash and investments. All remaining assets are allocated to Corporate.

The following tables summarize the underwriting results of our operating segments:

| For the Three Months Ended September 30, 2010                               | Diversified<br>Reinsurance | AmTrust<br>Quota<br>Share | ACAC<br>Quota Share | Total      |
|---|----------------------------|---------------------------|---------------------|------------|
| Net premiums written  | \$ 104,452                 | \$ 110,313                | \$ 58,670           | \$ 273,435 |
| Net premiums earned   | 142,419                    | 120,747                   | 46,427              | 309,593    |
| Net losses and loss expenses  | (95,409)                   | (76,199)                  | (29,017)            | (200,625)  |
| Commissions and other acquisition costs                                     | (34,228)                   | (39,011)                  | (15,717)            | (88,956)   |
| General and administrative expenses   | (6,745)                    | (220)                     | (124)               | (7,089)    |
| Underwriting income   | \$ 6,037                   | \$ 5,317                  | \$ 1,569            | \$ 12,923  |
| Reconciliation to net income  |                            |                           |                     |            |
| Net investment income and realized and unrealized investment gains (losses) |                            |                           |                     | 19,127     |
| Amortization of intangible assets   |                            |                           |                     | (1,452)    |
| Foreign exchange gains  |                            |                           |                     | 1,187      |
| Subordinated debt interest expense  |                            |                           |                     | (9,117)    |
| Other operating expenses  |                            |                           |                     | (3,751)    |
| Income tax expense  |                            |                           |                     | (391)      |
| Net Income  |                            |                           |                     | \$ 18,526  |
| Net loss and loss expense ratio*  | 67.0%                      | 63.1%                     | 62.5%               | 64.8%      |

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|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Acquisition cost ratio**                    | 24.0% | 32.3% | 33.9% | 28.7% |
| General and administrative expense ratio*** | 4.8%  | 0.2%  | 0.2%  | 3.5%  |
| Combined ratio****                          | 95.8% | 95.6% | 96.6% | 97.0% |

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## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

## 12. Segments (continued)

| For the Nine Months Ended September 30, 2010                                | Diversified<br>Reinsurance | AmTrust        | ACAC        | Total      |
|---|----------------------------|----------------|-------------|------------|
|   |                            | Quota<br>Share | Quota Share |            |
| Net premiums written  | \$ 409,075                 | \$ 340,992     | \$ 147,709  | \$ 897,776 |
| Net premiums earned   | 455,378                    | 333,070        | 68,858      | 857,306    |
| Net losses and loss expenses  | (294,044)                  | (209,184)      | (43,036)    | (546,264)  |
| Commissions and other acquisition costs                                     | (123,128)                  | (108,249)      | (23,422)    | (254,799)  |
| General and administrative expenses   | (18,343)                   | (1,292)        | (124)       | (19,759)   |
| Underwriting income   | \$ 19,863                  | \$ 14,345      | \$ 2,276    | \$ 36,484  |
| Reconciliation to net income  |                            |                |             |            |
| Net investment income and realized and unrealized investment gains (losses) |                            |                |             | 56,430     |
| Amortization of intangible assets   |                            |                |             | (4,356)    |
| Foreign exchange losses   |                            |                |             | (380)      |
| Subordinated debt interest expense  |                            |                |             | (27,348)   |
| Other operating expenses  |                            |                |             | (9,117)    |
| Income tax expense  |                            |                |             | (981)      |
| Net Income  |                            |                |             | \$ 50,732  |
| Net loss and loss expense ratio*  | 64.6%                      | 62.8%          | 62.5%       | 63.7%      |
| Acquisition cost ratio**  | 27.0%                      | 32.5%          | 34.0%       | 29.7%      |
| General and administrative expense ratio***                                 | 4.0%                       | 0.4%           | 0.2%        | 3.4%       |
| Combined ratio****  | 95.6%                      | 95.7%          | 96.7%       | 96.8%      |

| For the Three Months Ended September 30, 2009                | Diversified<br>Reinsurance | AmTrust        | ACAC        | Total      |
|--|----------------------------|----------------|-------------|------------|
|  |                            | Quota<br>Share | Quota Share |            |
| Net premiums written   | \$ 129,232                 | \$ 92,168      | \$ –        | \$ 221,400 |
| Net premiums earned  | 147,876                    | 89,474         | –           | 237,350    |
| Net losses and loss expenses                                 | (110,420)                  | (54,703)       | –           | (165,123)  |
| Commissions and other acquisition costs                      | (26,062)                   | (29,251)       | –           | (55,313)   |
| General and administrative expenses                          | (3,785)                    | (812)          | –           | (4,597)    |
| Underwriting income  | \$ 7,609                   | \$ 4,708       | \$ –        | \$ 12,317  |
| Reconciliation to net income                                 |                            |                |             |            |
| Net investment income and realized investment gains (losses) |                            |                |             | 16,712     |
| Amortization of intangible assets                            |                            |                |             | (1,676)    |
| Foreign exchange and other gains                             |                            |                |             | 210        |
| Subordinated debt interest expense                           |                            |                |             | (9,114)    |

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|   |       |       |    |         |
|---|-------|-------|----|---------|
| Other operating expenses                    |       |       |    | (3,462) |
| Net Income                                  |       |       | \$ | 14,987  |
| Net loss and loss expense ratio*            | 74.7% | 61.1% | –% | 69.6%   |
| Acquisition cost ratio**                    | 17.6% | 32.7% | –% | 23.3%   |
| General and administrative expense ratio*** | 2.6%  | 0.9%  | –% | 3.4%    |
| Combined ratio****                          | 94.9% | 94.7% | –% | 96.3%   |

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## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

## 12. Segments (continued)

| For the Nine Months Ended September 30, 2009                    | Diversified<br>Reinsurance | AmTrust<br>Quota<br>Share | ACAC<br>Quota Share | Total      |
|---|----------------------------|---------------------------|---------------------|------------|
| Net premiums written  | \$ 528,963                 | \$ 267,341                | \$ –                | \$ 796,304 |
| Net premiums earned   | 401,761                    | 269,522                   | –                   | 671,283    |
| Net losses and loss expenses                                    | (294,005)                  | (168,463)                 | –                   | (462,468)  |
| Commissions and other acquisition costs                         | (71,234)                   | (88,374)                  | –                   | (159,608)  |
| General and administrative expenses                             | (13,599)                   | (1,873)                   | –                   | (15,472)   |
| Underwriting income   | \$ 22,923                  | \$ 10,812                 | \$ –                | \$ 33,735  |
| Reconciliation to net income                                    |                            |                           |                     |            |
| Net investment income and realized investment gains<br>(losses) |                            |                           |                     | 45,688     |
| Amortization of intangible assets                               |                            |                           |                     | (4,915)    |
| Foreign exchange and other gains                                |                            |                           |                     | 2,401      |
| Subordinated debt interest expense                              |                            |                           |                     | (25,316)   |
| Other operating expenses  |                            |                           |                     | (7,254)    |
| Net Income  |                            |                           |                     | \$ 44,339  |
| Net loss and loss expense ratio*                                | 73.2%                      | 62.5%                     | –%                  | 68.9%      |
| Acquisition cost ratio**  | 17.7%                      | 32.8%                     | –%                  | 23.8%      |
| General and administrative expense ratio***                     | 3.4%                       | 0.7%                      | –%                  | 3.4%       |
| Combined ratio****  | 94.3%                      | 96.0%                     | –%                  | 96.1%      |

\* Calculated by dividing net losses and loss expenses by net earned premium.

\*\* Calculated by dividing commission and other acquisition expenses by net earned premium

\*\*\* Calculated by dividing general and administrative expenses by net earned premium.

\*\*\*\* Calculated by adding together net loss and loss expense ratio, acquisition cost ratio and general and administrative expense ratio.

| As at September 30, 2010                        | Diversified<br>Reinsurance | AmTrust<br>Quota Share | ACAC<br>Quota Share | Total      |
|---|----------------------------|------------------------|---------------------|------------|
| Reinsurance balances receivable, net            | \$ 146,270                 | \$ 31,642              | \$ 66,441           | \$ 244,353 |
| Prepaid reinsurance                             | 31,575                     | –                      | –                   | 31,575     |
| Reinsurance recoverable on unpaid losses        | 6,000                      | –                      | –                   | 6,000      |
| Deferred commission and other acquisition costs | 73,091                     | 87,329                 | 26,821              | 187,241    |
| Loan to related party                           | –                          | 167,975                | –                   | 167,975    |
| Goodwill  | 52,617                     | –                      | –                   | 52,617     |

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|                                 |              |            |            |              |
|---------------------------------|--------------|------------|------------|--------------|
| Intangible assets, net          | 46,928       | –          | –          | 46,928       |
| Restricted investments and cash | 1,126,223    | 331,957    | 10,289     | 1,468,469    |
| Corporate and other assets      | 3,933        | –          | –          | 634,412      |
| Total Assets                    | \$ 1,486,637 | \$ 618,903 | \$ 103,551 | \$ 2,839,570 |

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## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

## 12. Segments (continued)

|   | Diversified<br>Reinsurance | AmTrust<br>Quota Share | ACAC<br>Quota Share | Total        |
|---|----------------------------|------------------------|---------------------|--------------|
| As at December 31, 2009                         |                            |                        |                     |              |
| Reinsurance balances receivable, net            | \$ 171,482                 | \$ 39,856              | \$ –                | \$ 211,338   |
| Prepaid reinsurance                             | 28,752                     | –                      | –                   | 28,752       |
| Reinsurance recoverable on unpaid losses        | 11,984                     | –                      | –                   | 11,984       |
| Deferred commission and other acquisition costs | 88,224                     | 84,759                 | –                   | 172,983      |
| Loan to related party                           | –                          | 167,975                | –                   | 167,975      |
| Goodwill  | 52,617                     | –                      | –                   | 52,617       |
| Intangible assets, net                          | 51,284                     | –                      | –                   | 51,284       |
| Restricted investments and cash                 | 1,168,663                  | 206,959                | –                   | 1,375,622    |
| Corporate and other assets                      | 2,502                      | –                      | –                   | 567,182      |
| Total Assets                                    | \$ 1,575,508               | \$ 499,549             | \$ –                | \$ 2,639,737 |

The following tables set forth financial information relating to gross and net premiums written and earned by major line of business for the three and nine months ended September 30, 2010 and 2009:

|                                      | For the Three Months Ended<br>September 30,<br>2010 |            | For the Three Months Ended<br>September 30,<br>2009 |            |
|--------------------------------------|---|------------|---|------------|
|                                      | Total   | % of Total | Total   | % of Total |
| Net premiums written                 |   |            |   |            |
| Diversified Reinsurance              |   |            |   |            |
| Property                             | \$ 37,471   | 13.7%      | \$ 28,691   | 13.0%      |
| Casualty                             | 54,178  | 19.8%      | 76,377  | 34.5%      |
| Accident and Health                  | 12,803  | 4.7%       | 24,164  | 10.9%      |
| Total Diversified Reinsurance        | 104,452   | 38.2%      | 129,232   | 58.4%      |
| AmTrust Quota Share                  |   |            |   |            |
| Small Commercial Business            | 43,664  | 16.0%      | 34,077  | 15.4%      |
| Specialty Program Business           | 20,996  | 7.7%       | 13,052  | 5.9%       |
| Specialty Risk and Extended Warranty | 45,653  | 16.7%      | 45,039  | 20.3%      |
| Total AmTrust Quota Share            | 110,313   | 40.4%      | 92,168  | 41.6%      |
| ACAC Quota Share                     |   |            |   |            |
| Automobile liability                 | 33,565  | 12.2%      | –   | –%         |
| Automobile physical damage           | 25,105  | 9.2%       | –   | –%         |
| Total ACAC Quota share               | 58,670  | 21.4%      | –   | –%         |
|                                      | \$ 273,435  | 100.0%     | \$ 221,400  | 100.0%     |

## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

## 12. Segments (continued)

|                                      | For the Nine Months Ended<br>September 30,<br>2010 |            | For the Nine Months Ended<br>September 30,<br>2009 |            |
|--------------------------------------|--|------------|--|------------|
|                                      | Total  | % of Total | Total  | % of Total |
| Net premiums written                 |  |            |  |            |
| Diversified Reinsurance              |  |            |  |            |
| Property                             | \$ 131,800   | 14.7%      | \$ 105,650   | 13.3%      |
| Casualty                             | 238,194  | 26.5%      | 331,685  | 41.6%      |
| Accident and Health                  | 39,081   | 4.4%       | 91,628   | 11.5%      |
| Total Diversified Reinsurance        | 409,075  | 45.6%      | 528,963  | 66.4%      |
| AmTrust Quota Share                  |  |            |  |            |
| Small Commercial Business            | 147,494  | 16.4%      | 132,985  | 16.7%      |
| Specialty Program Business           | 51,897   | 5.8%       | 35,044   | 4.4%       |
| Specialty Risk and Extended Warranty | 141,601  | 15.8%      | 99,312   | 12.5%      |
| Total AmTrust Quota Share            | 340,992  | 38.0%      | 267,341  | 33.6%      |
| ACAC Quota Share                     |  |            |  |            |
| Automobile liability                 | 84,524   | 9.4%       | –  | –%         |
| Automobile physical damage           | 63,185   | 7.0%       | –  | –%         |
| Total ACAC Quota Share               | 147,709  | 16.4%      | –  | –%         |
|                                      | \$ 897,776   | 100.0%     | \$ 796,304   | 100.0%     |

|                                      | For the Three Months Ended<br>September 30,<br>2010 |            | For the Three Months Ended<br>September 30,<br>2009 |            |
|--------------------------------------|---|------------|---|------------|
|                                      | Total   | % of Total | Total   | % of Total |
| Net premiums earned                  |   |            |   |            |
| Diversified Reinsurance              |   |            |   |            |
| Property                             | \$ 42,800   | 13.8%      | \$ 33,948   | 14.3%      |
| Casualty                             | 86,028  | 27.8%      | 87,043  | 36.7%      |
| Accident and Health                  | 13,591  | 4.4%       | 26,885  | 11.3%      |
| Total Diversified Reinsurance        | 142,419   | 46.0%      | 147,876   | 62.3%      |
| AmTrust Quota Share                  |   |            |   |            |
| Small Commercial Business            | 46,744  | 15.1%      | 50,896  | 21.4%      |
| Specialty Program Business           | 21,494  | 6.9%       | 11,426  | 4.9%       |
| Specialty Risk and Extended Warranty | 52,509  | 17.0%      | 27,152  | 11.4%      |
| Total AmTrust Quota Share            | 120,747   | 39.0%      | 89,474  | 37.7%      |
| ACAC Quota Share                     |   |            |   |            |
| Automobile liability                 | 26,001  | 8.4%       | –   | –%         |
| Automobile physical damage           | 20,426  | 6.6%       | –   | –%         |
| Total ACAC Quota Share               | 46,427  | 15.0%      | –   | –%         |
|                                      | \$ 309,593  | 100.0%     | \$ 237,350  | 100.0%     |



## MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements  
(In Thousands of United States Dollars, Except Par Value and Per Share Data)  
(Unaudited)

## 12. Segments (continued)

|                                      | For the Nine Months Ended<br>September 30,<br>2010 |            | For the Nine Months Ended<br>September 30,<br>2009 |            |
|--------------------------------------|--|------------|--|------------|
|                                      | Total  | % of Total | Total  | % of Total |
| Net premiums earned                  |  |            |  |            |
| Diversified Reinsurance              |  |            |  |            |
| Property                             | \$ 132,138   | 15.4%      | \$ 99,525  | 14.8%      |
| Casualty                             | 270,103  | 31.5%      | 224,737  | 33.5%      |
| Accident and Health                  | 53,137   | 6.2%       | 77,499   | 11.5%      |
| Total Diversified Reinsurance        | 455,378  | 53.1%      | 401,761  | 59.8%      |
| AmTrust Quota Share                  |  |            |  |            |
| Small Commercial Business            | 154,884  | 18.1%      | 157,645  | 23.5%      |
| Specialty Program Business           | 52,948   | 6.2%       | 37,844   | 5.7%       |
| Specialty Risk and Extended Warranty | 125,238  | 14.6%      | 74,033   | 11.0%      |
| Total AmTrust Quota Share            | 333,070  | 38.9%      | 269,522  | 40.2%      |
| ACAC Quota Share                     |  |            |  |            |
| Automobile liability                 | 38,595   | 4.5%       | —  | —%         |
| Automobile physical damage           | 30,263   | 3.5%       | —  | —%         |
| Total ACAC Quota Share               | 68,858   | 8.0%       | —  | —%         |
|                                      | \$ 857,306   | 100.0%     | \$ 671,283   | 100.0%     |

## 13. Subsequent Events

## Dividends

On November 4, 2010, the Company declared a quarterly dividend of \$0.07 per common share, payable on January 18, 2011 to shareholders of record on January 3, 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q. References in this Form 10-Q to the terms "we," "us," "our," "the Company" or other similar terms mean the consolidated operations of Maiden Holdings, Ltd. and its subsidiaries, unless the context requires otherwise. References in this Form 10-Q to the term "Holdings" means Maiden Holdings, Ltd. only.

Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q and other publicly available documents may include, and our officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 and are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These projections and statements may address, among other things, our strategy for growth, product development, financial results and reserves. Actual results and financial condition may differ, possibly materially, from these projections and statements and therefore you should not place undue reliance on them. Factors that could cause our actual results to differ, possibly materially, from those in the specific projections and statements are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations and in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on March 16, 2010. Since the Company commenced operations in 2007, the Company has engaged in a number of significant transactions, including entering into the AmTrust Quota Share in 2007, the GMAC Acquisition in 2008, the TRUPS Offering in 2009 and the ACAC Transaction and pending GMAC International Insurance Services, Ltd. Reinsurance acquisition in 2010, each discussed below that significantly affect the comparability of results of operations from year to year. The projections and statements in this Report speak only as of the date of this Report and those in other publicly available documents or made by our officers and representatives from time to time speak only as of their respective dates and we undertake no obligation to update or revise any forward-looking statement that may be made from time to time, whether as a result of new information, future developments or otherwise, except as required by law.

Overview

We are a Bermuda-based holding company formed in June 2007 primarily focused on serving the needs of regional and specialty insurers in the United States and Europe by providing innovative reinsurance solutions designed to support their capital needs. We specialize in reinsurance solutions that optimize financing by providing coverage within the more predictable and actuarially credible lower layers of coverage and/or reinsuring risks that are believed to be lower hazard, more predictable and generally not susceptible to catastrophe claims. Our tailored solutions include a variety of value added services focused on helping our clients grow and prosper.

We provide reinsurance through our wholly owned subsidiaries, Maiden Reinsurance Company ("Maiden US") and Maiden Bermuda and have operations in the United States and Bermuda. On a more limited basis, Maiden Specialty, a wholly owned subsidiary of Maiden US, provides primary insurance on a surplus lines basis focusing on non-catastrophe inland marine and property coverage. Maiden Bermuda does not underwrite any primary insurance business.

We historically have managed our business through two operating segments: Diversified Reinsurance and the AmTrust Quota Share. In the first quarter of 2010, we added a third segment, ACAC Quota Share, as a result of the

ACAC Transaction discussed below. As of September 30, 2010, we had approximately \$758.4 million of total shareholders' equity and \$973.5 million in total capital, which includes shareholders' equity and junior subordinated debt.

The market conditions in which we operate have historically been cyclical, experiencing cycles of price erosion followed by rate strengthening as a result of catastrophes or other significant losses that affect the overall capacity of the industry to provide coverage. During the period covered by this discussion, the reinsurance market has been characterized by significant competition in most lines of business.

During 2009 and 2010, there were a number of events that impacted the property and casualty industry generally. While natural and man-made catastrophes occur each year affecting reinsurance industry results, 2009 generally featured fewer such events, favorably impacting industry performance. Further, despite the ongoing global economic recession, industry investments in risk assets performed significantly better in 2009, increasing both statutory and generally accepted accounting principles in the United States ("GAAP") capital at the individual market participant level and in the aggregate across the reinsurance industry more generally. In the first nine months of 2010, a series of significant natural and man-made catastrophes occurred, including a major earthquake in Chile, damaging windstorms in Europe (Xynthia), a series of severe winter storms in the northeastern United States and the Deepwater Horizon explosion and oil spill in the Gulf of Mexico. Consistent with its business model, the Company experienced no losses from the Chilean earthquake, Deepwater Horizon explosion or European windstorms, while losses from the United States winter storms, if any, are expected to be immaterial.



In addition, the property and casualty industry invest significant portions of its premiums and retained underwriting profits in fixed income maturities, the yields on which continue to perform at historically low levels. Continued existence of these conditions, including the possibility of even lower yields in the near-term will increasingly adversely impact the results of the property and casualty industry generally, placing additional pressure on companies underwriting results at a time that market conditions are not supportive of additional pricing measures which would stabilize underwriting trends. Nonetheless, capital positions across the industry remain sufficiently strong that despite the unfavorable pricing and investment environment, competitive conditions appear unlikely to change in the immediately foreseeable future, although the ultimate impact remains unclear. As market conditions continue to develop and competition further increases, we continue to maintain our adherence to underwriting standards by declining business when pricing, terms and conditions do not meet our underwriting standards.

#### Recent Developments

##### GMAC International Insurance Services, Ltd. Reinsurance Acquisition ("IIS Acquisition")

On July 6, 2010, the Company announced that it entered into a definitive agreement to acquire the majority of the reinsurance-related infrastructure, assets and liabilities of U.K.-based GMAC International Insurance Services, Ltd. ("IIS"), including renewal rights on nearly \$100 million of predominantly personal auto quota share reinsurance, as well as the supporting business development subsidiaries. The transaction includes the assumption of more than \$100 million of loss reserves and net unearned premiums which will be funded by a transfer of cash and investments. IIS primarily focuses on providing branded auto and auto-related insurance products through its insurer partners to retail customers in the European Union and other global markets.

The Company presently expects the proposed transaction to close by the end of November 2010. The Company also expects the transaction to be accretive to 2011 earnings, and to generally perform within its overall stated targets of a 96% combined ratio and medium-term ROE target of 15%.

##### ACAC Transaction

In November 2009, we announced an agreement in principal with American Capital Acquisition Corporation ("ACAC") regarding a multi-year 25% quota share agreement expected to generate over \$200 million in annual revenue. The contract commenced on March 1, 2010 after final regulatory approval and the closing of ACAC's acquisition of the GMACI Holdings, LLC ("GMACI") U.S. consumer property and casualty insurance business, as well as a small amount of commercial auto business. This business generated over \$1.0 billion in net written premium in each of 2008 and 2009. ACAC is owned by one of our Founding Shareholders, Michael Karfunkel, and the Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust"), which is controlled by Michael Karfunkel. The Trust currently owns 72.4% of ACAC's issued and outstanding common stock, Michael Karfunkel currently owns 27.6% of ACAC's issued and outstanding common stock, and AmTrust owns preferred shares convertible into 21.25% of the issued and outstanding common stock of ACAC.

Management of this business is treated as a separate segment captioned ACAC Quota Share.

##### GMAC Acquisition

On October 31, 2008, we acquired the reinsurance operations of GMACI which included the following components, and the sum of which are referred to as the "GMAC Acquisition":

- GMAC RE LLC ("GMAC RE"), a reinsurance managing general agent writing business on behalf of Motors Insurance Corporation ("Motors") and the renewal rights for the business written through GMAC RE (which was subsequently renamed Maiden Re Insurance Services, LLC ("Maiden Re"));

- GMAC Direct Insurance Company ("GMAC Direct") (which was subsequently renamed Maiden Reinsurance Company); and
- Integon Specialty Insurance Company ("Integon") (which was subsequently renamed Maiden Specialty Insurance Company).

In conjunction with the acquisition of GMAC RE, on October 31, 2008, the Company and Motors entered into a Portfolio Transfer and Quota Share Reinsurance Agreement ("Motors Agreement") under which the Company reinsures (i) all of the existing contracts written by GMAC RE pursuant to a loss portfolio transfer and (ii) contracts written pursuant to a fronting arrangement with Motors. According to the loss portfolio transfer provisions of the Motors Agreement, the Company assumed the loss reserves of \$755.6 million associated with the GMAC RE business as of October 31, 2008. The Company also assumed unearned premium of approximately \$169.9 million. As a result of assumption of these liabilities, the Company initially received cash and investments of approximately \$956.3 million from Motors. The Company now assumes one hundred percent (100%) of all premiums and losses for which Motors is otherwise entitled to or liable in respect of the reinsurance contracts.

To support the businesses acquired in the GMAC Acquisition and Maiden Holdings North America, Ltd. ("Maiden NA"), on January 20, 2009, we completed an offering of approximately \$260.1 million in the form of junior subordinated debentures (the "Debentures") issued by Maiden Capital Financing Trust, a trust established by Maiden NA, and also issued 11,700,000 common shares to the purchasers ("TRUPS Offering"). The Debentures mature in 2039 and carry an interest rate of 14%. Approximately 61% of these securities were placed privately with two of our Founding Shareholders (Michael Karfunkel and George Karfunkel), and the remainder with existing institutional investors.

## 2010 Financial Highlights

### 2010 Consolidated Results of Operations

- Net income available to common shareholders of \$18.5 million and \$50.7 million, or \$0.26 and \$0.72 basic and diluted for the three and nine months ended September 30, 2010 as compared to \$15.0 million and \$44.3 million, or \$0.21 basic and diluted and \$0.64 basic and \$0.63 diluted earnings per share, for the same periods in 2009, respectively.
- Operating earnings (1) of \$18.1 million and \$55.5 million, or \$0.26 and \$0.79 basic and diluted operating earnings per share, for the three and nine months ended September 30, 2010 compared to \$16.5 million and \$47.3 million, or \$0.24 basic and \$0.23 diluted and \$0.68 basic and diluted operating earnings per share, in the same periods in 2009, respectively. (1)
- Gross premiums written of \$952.0 million in 2010 as compared to \$796.3 million in 2009.
- Net premiums earned of \$857.3 million in 2010 as compared to \$671.3 million in 2009.
- Underwriting income of \$12.9 million and \$36.5 million and combined ratios of 97.0% and 96.8% for the three and nine months ended September 30, 2010 compared to \$12.3 million and \$33.7 million and combined ratios of 96.3% and 96.1%, respectively for the same periods in 2009 (1)
- Net investment income of \$54.0 million as compared to \$46.2 million in 2009.

### 2010 Consolidated Financial Condition

- Annualized operating return on equity of 10.3% for the nine months ended September 30, 2010 as compared to 10.8% for the same period in 2009. (1)
- Common shareholders' equity of \$758.4 million; book value per common share of \$10.52.
- Total investments of \$1.6 billion; fixed maturities and short-term securities comprising 99.7% of total investments, of which 55.9% have a credit rating of AAA and an overall average credit rating of AA.
- Total assets of \$2.8 billion.
- Reserve for losses and loss expenses of \$1.1 billion.
- Total debt of \$215.2 million and a debt to total capitalization ratio of 22.1%.

(1) Operating earnings, operating earnings per share, underwriting income, combined ratio and book value per share are non-GAAP financial measures. See "Non-GAAP Financial Measures" for additional information

and a reconciliation to the nearest GAAP financial measure (net income).

## Non-GAAP Financial Measures

In presenting the Company's results, management has included and discussed certain non-GAAP financial measures. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the Company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the Company's business. However these measures should not be viewed as a substitute for those determined in accordance with GAAP. These non-GAAP measures are:

**Operating Earnings and Operating Earnings per Share:** In addition to presenting net income determined in accordance with GAAP, we believe that showing operating earnings enables investors, analysts, rating agencies and other users of our financial information to more easily analyze our results of operations in a manner similar to how management analyzes our underlying business performance. Operating earnings should not be viewed as a substitute for GAAP net income. Operating earnings are an internal performance measure used in the management of our operations and represents operating results excluding, as applicable, realized investment gains or losses, foreign exchange gain or loss, the amortization of intangible assets, deferred tax expenses and in 2010, transaction expenses related to the IIS Acquisition. We exclude net realized investment gains or losses and foreign exchange gain or loss as we believe that both are heavily influenced in part by market opportunities and other factors. We do not believe amortizations of intangible assets are representative of our ongoing business. We believe all of these amounts are largely independent of our business and underwriting process and including them distorts the analysis of trends in our operations. The following is a reconciliation of operating earnings to its most closely related GAAP measure, net income.

|   | For the Three Months<br>Ended September 30, |         | For the Nine Months<br>Ended September 30, |         |
|---|---|---------|--|---------|
|   | 2010  | 2009    | 2010                                       | 2009    |
|   | (\$ in Millions)                            |         |  |         |
| Net income  | \$ 18.5                                     | \$ 15.0 | \$ 50.7                                    | \$ 44.3 |
| Add (subtract):                                       |   |         |  |         |
| Net realized and unrealized investment (gains) losses | (1.6)                                       | 0.1     | (2.5)                                      | 0.5     |
| Amortization of intangible assets                     | 1.4   | 1.6     | 4.4  | 4.9     |
| IIS transaction expenses                              | 0.6   | –       | 1.5  | –       |
| Foreign exchange and other (gains) losses             | (1.2)                                       | (0.2)   | 0.4  | (2.4)   |
| Income tax expense                                    | 0.4   | –       | 1.0  | –       |
| Operating earnings                                    | \$ 18.1                                     | \$ 16.5 | \$ 55.5                                    | \$ 47.3 |
| Operating earnings per common share:                  |   |         |  |         |
| Basic operating earnings per share                    | \$ 0.26                                     | \$ 0.24 | \$ 0.79                                    | \$ 0.68 |
| Diluted operating earnings per share                  | \$ 0.26                                     | \$ 0.23 | \$ 0.79                                    | \$ 0.68 |

**Underwriting Income and Combined Ratio:** The combined ratio is used in the insurance and reinsurance industry as a measure of underwriting profitability. The combined ratio is the sum of the loss and loss expense ratio and the expense ratio. A combined ratio under 100% indicates underwriting profitability, as the total losses and loss expenses, acquisition costs and general and administrative expenses are less than the premiums earned on that business. We have generated underwriting income in each year since our inception. Underwriting income is calculated by subtracting losses and loss adjustment expenses, commissions and other acquisition expenses and applicable general and administrative expenses from the net earned premium and is the monetized counterpart of the combined ratio. While an important metric of success, underwriting income and combined ratio do not reflect all components of profitability, as it does not recognize the impact of investment income earned on premiums between the time premiums are received and the time loss payments are ultimately paid to clients. Please refer to Relevant Factors for further information on the components and computation of combined ratio.



Operating Return on Equity ("Operating ROE"): Management uses operating return on average shareholders' equity as a measure of profitability that focuses on the return to common shareholders. It is calculated using operating earnings available to common shareholders (realized gains or losses on investments, foreign exchange gain and other (gains) losses, amortization of intangibles, and amortization of intangible assets) divided by average common shareholders' equity. Management has set as a target a long-term average of 15% Operating ROE, which management believes provides an attractive return to shareholders for the risk assumed. Given the current interest rate environment this target may take somewhat longer to achieve. Operating ROE for the three and nine months ended September 30, 2010 and 2009 is computed as follows:

|                                       | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |          |
|---------------------------------------|---|----------|--|----------|
|                                       | 2010  | 2009     | 2010                                       | 2009     |
|                                       | (\$ in Millions)                            |          |  |          |
| Operating earnings                    | \$ 18.1                                     | \$ 16.5  | \$ 55.5                                    | \$ 47.3  |
| Opening shareholders' equity          | \$ 724.8                                    | \$ 605.4 | \$ 676.5                                   | \$ 509.8 |
| Ending shareholders' equity           | \$ 758.4                                    | \$ 664.6 | \$ 758.4                                   | \$ 664.6 |
| Average shareholders' equity          | \$ 741.6                                    | \$ 635.0 | \$ 717.5                                   | \$ 587.2 |
| Operating return on equity            | 2.4%  | 2.6%     | 7.7%                                       | 8.1%     |
| Annualized operating return on equity | 9.7%  | 10.3%    | 10.3%                                      | 10.8%    |

Book Value per Share: Management uses growth in book value per share as a prime measure of the value the Company is generating for its common shareholders, as management believes that growth in the Company's book value per share ultimately translates into growth in the Company's stock price. Book value per share is calculated using common shareholders' equity divided by the number of common shares outstanding. Book value per share is impacted by the Company's net income and external factors such as interest rates, which can drive changes in unrealized gains or losses on its investment portfolio. Book value per share as of September 30, 2010 and December 31, 2009 is computed as follows:

|                             | September 30,<br>2010 | December 31,<br>2009 |
|-----------------------------|-----------------------|----------------------|
|                             | (\$ in Millions)      |                      |
| Ending shareholders' equity | \$ 758.4              | \$ 676.5             |
| Common shares outstanding   | 72,105,694            | 70,291,289           |
| Book value per share        | \$ 10.52              | \$ 9.62              |

#### Relevant Factors

##### Revenues

We derive our revenues primarily from premiums on our insurance policies and reinsurance contracts, net of any reinsurance or retrocessional coverage purchased. Insurance and reinsurance premiums are a function of the amounts and types of policies and contracts we write, as well as prevailing market prices. Our prices are determined before our ultimate costs, which may extend far into the future, are known.

The Company's revenues also include income generated from its investment portfolio. The Company's investment portfolio is comprised of fixed maturity investments, short term investments and other investments that are held as

available for sale. In accordance with GAAP, these investments are carried at fair market value and unrealized gains and losses on the Company's investments are generally excluded from earnings. These unrealized gains and losses are included on the Company's balance sheet in accumulated other comprehensive (loss) income as a separate component of shareholders' equity. If unrealized losses are considered to be other-than-temporarily impaired, such losses are included in earnings as a realized loss.

#### Expenses

Our expenses consist largely of net losses and loss expenses, commissions and other acquisition costs, general and administrative expenses, amortization of intangible assets and foreign exchange gains or losses. Net losses and loss expenses incurred are comprised of three main components;

- losses paid, which are actual cash payments to insureds, net of recoveries from reinsurers;
- change in outstanding loss or case reserves, which represent management's best estimate of the likely settlement amount for known claims, less the portion that can be recovered from reinsurers; and



- change in Incurred but Not Reported ("IBNR") reserves, which are reserves established by us for changes in the values of claims that have been reported to us but are not yet settled, as well as claims that have occurred but have not yet been reported. The portion recoverable from reinsurers is deducted from the gross estimated loss.

Acquisition costs are comprised of commissions, brokerage fees and insurance taxes. Commissions and brokerage fees are usually calculated as a percentage of premiums and depend on the market and line of business and can, in certain instances, vary based on loss sensitive features of reinsurance contracts. Acquisition costs are reported after (1) deducting commissions received on ceded reinsurance, (2) deducting the part of acquisition costs relating to unearned premiums and (3) including the amortization of previously deferred acquisition costs.

General and administrative expenses include personnel expenses including share-based compensation charges, rent expense, professional fees, information technology costs and other general operating expenses. We are experiencing increases in general and administrative expenses resulting from additional staff, increased share-based compensation expense, increased rent expense for our offices and increased professional fees. As the Company continues to expand and diversify in 2010, particularly through the ACAC Transaction, the pending IIS Acquisition and other initiatives across both its US and Bermuda platforms, we expect this trend to continue.

#### Combined Ratio Components

Management measures underwriting results on an overall basis and for each segment on the basis of the "combined ratio." The "combined ratio" is the sum of the loss and loss expense ratio and expense ratio. The individual components of the combined ratio include the "loss and loss expense ratio," "acquisition cost ratio," and the "general and administrative expense ratio." Because we do not manage our assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written. The "loss and loss expense ratio" is derived by dividing net losses and loss expenses by net premiums earned. The "acquisition cost ratio" is derived by dividing acquisition costs by net premiums earned. The "general and administrative expense ratio" is derived by dividing general and administrative expenses by net premiums earned. The "expense ratio" is the sum of the acquisition cost ratio and the general and administrative expense ratio.

#### Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial position and results of operations. The Company's Consolidated Financial Statements have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following presents a discussion of those accounting policies and estimates that Management believes are the most critical to its operations and require the most difficult, subjective and complex judgment. If actual events differ significantly from the underlying assumptions and estimates used by Management, there could be material adjustments to prior estimates that could potentially adversely affect the Company's results of operations, financial condition and liquidity. These critical accounting policies and estimates should be read in conjunction with the Company's Notes to Consolidated Financial Statements, including Note 2, Significant Accounting Policies, for a full understanding of the Company's accounting policies. For a detailed discussion of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC. There were no material changes in the application of our critical accounting estimates subsequent to that report. However, the Company is amending its disclosure with regard to Fair Value of Financial Instruments to include the following:

- For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. To date we have only included U.S. government fixed maturity investments as Level 1. The Company receives the quoted market prices from a third party, nationally recognized pricing service (“Pricing Service”). When quoted market prices are unavailable, the Company utilizes the Pricing Service to determine an estimate of fair value. The fair value estimates are included in the Level 2 hierarchy. The Pricing Service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. The Pricing Service’s evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing, to prepare evaluations. In addition, the Pricing Service uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and develop prepayment scenarios. The market inputs that the Pricing Service normally seeks for evaluations of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

- The Company utilizes the fair values received from the Pricing Service. If quoted market prices and an estimate from the Pricing Service are unavailable, the Company produces an estimate of fair value based on dealer quotations for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy. Approximately 96.8% of the Company's fixed maturity investments are categorized as Level 2 within the fair value hierarchy. As of September 30, 2010 and December 31, 2009, we have not adjusted any prices provided by the Pricing Service.
- The Company will challenge any prices for its investments that are not considered to represent fair value. If a fair value is challenged, the Company will obtain a non-binding quote from a broker-dealer; multiple quotations are not typically sought. As of September 30, 2010 and December 31, 2009, only one security valued using the market approach at approximately \$8.6 million and \$7.9 million, respectively, was priced using a quotation from a broker as opposed to the Pricing Service. As of September 30, 2010, we have not adjusted any pricing provided by the broker-dealers based on the review performed by our investment managers.
- To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. In addition, our process to validate the market prices obtained from the Pricing Service includes, but is not limited to, periodic evaluation of model pricing methodologies and analytical reviews of certain prices. We also periodically perform testing of the market to determine trading activity, or lack of trading activity, as well as evaluating the variability of market prices. Securities sold during the quarter are also "back-tested" (i.e., the sales prices are compared to the previous month end reported market price to determine the reasonableness of the reported market price). There were no material differences between the prices from the Pricing Service and the prices obtained from our validation procedures as of September 30, 2010 and December 31, 2009.

## Results of Operations

### Net Income

Net income for the three months ended September 30, 2010 was \$18.5 million compared to net income of \$15.0 million for the same period in 2009. Net income for the nine months ended September 30, 2010 was \$50.7 million compared to net income of \$44.3 million for the same period in 2009.

The improvement in net income for the three months ended September 30, 2010 as compared to the same period in 2009 was principally the result of increased investment income and net realized investment gains as the Company's invested asset base continued to increase in 2010 compared to 2009. In addition, underwriting income improved as a result of the Company's continuing growth despite a marginally higher combined ratio. Certain non-recurring expenses totaling \$0.6 million related to the IIS Transaction offset these improvements.

The improvement in net income for the nine months ended September 30, 2010 as compared to the same period in 2009 was principally the result of increased investment income and net realized investment gains as the Company's invested asset base continued to increase in 2010 compared to 2009. In addition, underwriting income improved as a result of the Company's continuing growth despite a marginally higher combined ratio. These improvements were partially offset by higher operating expenses, particularly as a result of the non-recurring expenses associated with the IIS Transaction, higher interest expense from the TRUPS Offering (which commenced in 2009), a foreign exchange loss, and deferred tax expenses.



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The following table sets forth our selected consolidated statement of operations data for each of the periods indicated:

|   | Three Months                |          | Nine Months                 |          |
|---|-----------------------------|----------|-----------------------------|----------|
|   | Ended September 30,<br>2010 | 2009     | Ended September 30,<br>2010 | 2009     |
|   | (\$ in Millions)            |          |                             |          |
| Gross premiums written                                | \$ 289.8                    | \$ 221.4 | \$ 952.0                    | \$ 796.3 |
| Net premiums written                                  | \$ 273.4                    | \$ 221.4 | \$ 897.8                    | \$ 796.3 |
| Net earned premium                                    | \$ 309.6                    | \$ 237.3 | \$ 857.3                    | \$ 671.3 |
| Loss and loss adjustment expenses                     | (200.6)                     | (165.1)  | (546.3)                     | (462.5)  |
| Commissions and other acquisition expenses            | (89.0)                      | (55.3)   | (254.8)                     | (159.6)  |
| General and administrative expenses                   | (7.1)                       | (4.6)    | (19.7)                      | (15.5)   |
| Total underwriting income                             | 12.9                        | 12.3     | 36.5                        | 33.7     |
| Other operating expenses                              | (3.7)                       | (3.4)    | (9.1)                       | (7.3)    |
| Net investment income                                 | 17.5                        | 16.8     | 54.0                        | 46.2     |
| Net realized and unrealized investment gains (losses) | 1.6                         | (0.1)    | 2.4                         | (0.5)    |
| Amortization of intangible assets                     | (1.5)                       | (1.7)    | (4.4)                       | (4.9)    |
| Foreign exchange and other (loss) gains               | 1.2                         | 0.2      | (0.4)                       | 2.4      |
| Junior subordinated debt interest expense             | (9.1)                       | (9.1)    | (27.3)                      | (25.3)   |
| Deferred tax expense                                  | (0.4)                       | —        | (1.0)                       | —        |
| Net income  | \$ 18.5                     | \$ 15.0  | \$ 50.7                     | \$ 44.3  |

| Selected Consolidated Ratios:            | Three Months                |       | Nine Months                 |       |
|--|-----------------------------|-------|-----------------------------|-------|
|  | Ended September 30,<br>2010 | 2009  | Ended September 30,<br>2010 | 2009  |
| Loss and loss expense ratio              | 64.8%                       | 69.6% | 63.7%                       | 68.9% |
| Acquisition cost ratio                   | 28.7%                       | 23.3% | 29.7%                       | 23.8% |
| General and administrative expense ratio | 3.5%                        | 3.4%  | 3.4%                        | 3.4%  |
| Expense ratio                            | 32.2%                       | 26.7% | 33.1%                       | 27.2% |
| Combined ratio                           | 97.0%                       | 96.3% | 96.8%                       | 96.1% |

Comparison of Three and Nine Months Ended September 30, 2010 and 2009

Premiums. We evaluate our business by segment. The ACAC Quota Share segment commenced in March 2010. As premiums associated with the ACAC Quota Share continue to increase during 2010, the mix of business among the segments will continue to shift and become more diverse, reducing the percentage of premiums and losses from the Diversified Reinsurance and AmTrust Quota Share segments. The following tables detail the mix of our business on both a net premiums written and net premiums earned basis for the three and nine months ended September 30, 2010 and 2009:

|                         | Net Premiums Written                     |       | Net Premiums Earned                      |       |
|-------------------------|--|-------|--|-------|
|                         | Three Months Ended September 30,<br>2010 | 2009  | Three Months Ended September 30,<br>2010 | 2009  |
| Diversified Reinsurance | 38.2%                                    | 58.4% | 46.0%                                    | 62.3% |
| AmTrust Quota Share     | 40.4%                                    | 41.6% | 39.0%                                    | 37.7% |
| ACAC Quota Share        | 21.4%                                    | —%    | 15.0%                                    | —%    |

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|       |        |        |        |        |
|-------|--------|--------|--------|--------|
| Total | 100.0% | 100.0% | 100.0% | 100.0% |
|-------|--------|--------|--------|--------|

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|                         | Net Premiums Written                 |        | Net Premiums Earned                  |        |
|-------------------------|--------------------------------------|--------|--------------------------------------|--------|
|                         | Nine Months Ended September 30, 2010 | 2009   | Nine Months Ended September 30, 2010 | 2009   |
| Diversified Reinsurance | 45.6%                                | 66.4%  | 53.1%                                | 59.8%  |
| AmTrust Quota Share     | 38.0%                                | 33.6%  | 38.9%                                | 40.2%  |
| ACAC Quota Share        | 16.4%                                | —%     | 8.0%                                 | —%     |
| Total                   | 100.0%                               | 100.0% | 100.0%                               | 100.0% |

**Net Premiums Written.** Net premiums written increased by \$52.0 million or 23.5% for the three months ended September 30, 2010 as compared to the same period in 2009 and increased \$101.5 million or 12.7% for the nine months ended September 30, 2010 as compared to the same period in 2009. The increase in net premiums written in the respective periods was primarily the result of the following:

- Commencement of the ACAC Quota Share on March 1, 2010. Premiums associated with this segment totaled \$58.7 million and \$147.7 million for the three and nine months ended September 30, 2010, accounting for the majority of the net increase in premiums.
- Continuing strong growth in our AmTrust Quota Share segment. The AmTrust Quota Share segment increased by \$18.1 million or 19.7% in the three months ended September 30, 2010 as compared to the same period in 2009, and \$73.7 million or 27.5% in the nine months ended September 30, 2010 as compared to the same period in 2009. For the three months ended September 30, the increase is the result of significant growth in the Specialty Program and Small Commercial lines of business, with slower growth experienced in the Specialty Risk and Extended Warranty line. For the nine months ended September 30, the increase was primarily due to a substantial increase in the Specialty Risk and Extended Warranty line of business, where AmTrust continues to expand, particularly internationally.
- A decrease in premium written in the Diversified Reinsurance Agreement. The Company did not renew certain large accounts as part of its disciplined underwriting practice and also some clients chose to retain more risk and did not renew accounts, as a result, premiums written decreased by \$24.8 million or 19.2% and \$119.9 million or 22.7% for the three and nine months ended September 30, 2010 as compared to the same periods in 2009, respectively.

**Net Premiums Earned.** Net premiums increased by \$72.2 million or 30.4% for the three months ended September 30, 2010 as compared to the same period in 2009 and increased \$186.0 million or 27.7% for the nine months ended September 30, 2010 as compared to the same period in 2009.

The increases were primarily attributable to the commencement of the ACAC Quota Share segment in 2010 along with continuing growth in the AmTrust Quota Share. In the Diversified Reinsurance segments, the impact of the unearned premium assumed from the GMAC Acquisition which was acquired net of acquisition costs, still represented a significant portion of the premium earned in 2009, which resulted in lower earned premium in that period and thus also affects comparability from period to period.

**Net Investment Income.** Net investment income increased by \$0.7 million or 4.3% and \$7.8 million or 16.9% for the three and nine months ended September 30, 2010 compared to the same periods in 2009, respectively. Average invested assets for the periods were approximately \$2.1 billion and \$2.0 billion for the three and nine months ended September 30, 2010, as compared to \$1.9 billion and \$1.8 billion for the same periods in 2009. The average yields were approximately 3.4% and 3.5% as compared to 3.6% and 3.4%. Continued growth in the overall book of business combined with positive cash flow from operations over the last twelve months contributed to the growth in invested assets. Further, the Company has continued to deploy the cash obtained through the GMAC Acquisition and also from the proceeds from the TRUPS Offering. Despite the Company's premium growth and the increase in average invested

assets, investment income grew at a slower rate in the three months ended September 30, 2010 as compared to recent quarters. This slower growth reflects the significant accumulation of cash and cash equivalents, which are yielding historically low levels. Please refer to Liquidity and Capital Resources for a more detailed discussion of the Company's investing position relative to the continuing accumulation of cash and cash equivalents, along with the Company's operating and investing cash flow results.

**Net Realized Investment Gains (Losses).** Net realized gains on investments were \$1.6 million and \$2.5 million for the three and nine months ended September 30, 2010, compared to net realized losses of (\$0.1) million and (\$0.5) million for the three and nine months ended September 30, 2009, respectively. For additional information on the Company's investments and realized gains and losses, please refer to Liquidity and Capital Resources.

**Loss and Loss Adjustment Expenses.** Loss and loss adjustment expenses increased by \$35.5 million or 21.5% and \$83.8 million or 18.1% for the three and nine months ended September 30, 2010 compared to the same periods in 2009, respectively. The Company's loss ratio decreased to 64.8% and 63.7% for the three and nine months ended September 30, 2010 compared to 69.6% and 68.9% for the same periods in 2009. As of September 30, 2009, the Company's earned premium in the Diversified Reinsurance segment from the GMAC Acquisition had not yet completed its first full year and was still increasing and thus comparability is affected. Accordingly, the 2010 ratios more accurately reflect recurring loss ratios as the transition from the GMAC Acquisition was completed near the end of 2009.



**Commission and Other Acquisition Expenses.** Commission and other acquisition expenses increased by \$33.7 million or 60.8% and \$95.2 million or 59.6% for the three and nine months ended September 30, 2010 compared to the same periods in 2009, respectively. This increase was primarily due to the increase in Commission and Other Acquisition Expenses associated with the Diversified Reinsurance segment, which was driven by the following: 1) 2009 reflects only a partial year of earned premiums in this segment as the first full year of operations from the GMAC Acquisition had not yet been completed; 2) the unearned premium portfolio assumed as part of the GMAC Acquisition was acquired net of acquisition costs; 3) the Diversified Reinsurance segment's mix of business continues to shift from excess of loss to pro rata business which has a higher acquisition cost ratio; and 4) increased commissions accruals on the 2009 and 2010 underwriting years due to lower loss ratios. In addition, growth in the AmTrust Quota Share segment and the commencement of the ACAC Quota Share segment contributed to the increases as well. As a result, the acquisition cost ratio increased to 28.7% and 29.7% for the three and nine months ended September 30, 2010 as compared to 23.3% and 23.8% for the same periods in 2009, respectively. The 2010 ratios more accurately reflect recurring acquisition ratios as the transition from the GMAC Acquisition was completed near the end of 2009.

**General and Administrative Expenses.** Other operating expenses include general and administrative expenses which are segregated for analytical purposes as a component of underwriting income. Other operating expenses consist of:

|  | Three Months<br>Ended September 30, |               | Nine Months<br>Ended September 30, |                |
|--|-------------------------------------|---------------|------------------------------------|----------------|
|  | 2010                                | 2009          | 2010                               | 2009           |
|  | (\$ in Millions)                    |               |                                    |                |
| General and administrative expenses – segments | \$ 7.1                              | \$ 4.6        | \$ 19.7                            | \$ 15.5        |
| Other operating expenses – corporate           | 3.7                                 | 3.4           | 9.1                                | 7.3            |
| <b>Total</b>                                   | <b>\$ 10.8</b>                      | <b>\$ 8.0</b> | <b>\$ 28.8</b>                     | <b>\$ 22.8</b> |
| General and administrative expense ratio       | 3.5%                                | 3.4%          | 3.4%                               | 3.4%           |

The increase in other operating expenses reflects the overall growth of the Company over the last twelve months, including increases in headcount, professional services, information technology and other related infrastructure costs. In 2010, other operating expenses for the three and nine months ended September 30, 2010, include \$0.6 million and \$1.5 million of non-recurring expenses incurred to date as a result of the IIS Transaction, respectively. Excluding these non-recurring expenses, the Company's general and administrative expense ratio, which is a measure of its efficiency, decreased to 3.3% and 3.2% for the three and nine months ended September 30, 2010 compared to 3.4% in both of the same periods in 2009, respectively.

**Junior Subordinated Debt Interest Expense.** The TRUPS Offering was completed in January 2009 and the interest expense was \$9.1 million in the three months ended September 30, 2010 and 2009, and \$27.3 million and \$25.3 million in the nine months ended September 30, 2010 and 2009, respectively.

#### Underwriting Results by Segment

The results of operations for our three business segments, Diversified Reinsurance, AmTrust Quota Share and ACAC Quota Share are discussed below. As noted previously, the Company added a third business segment in the first quarter of 2010, ACAC Quota Share. Please refer to the section within Recent Developments captioned ACAC Transaction for further details on this new segment.

#### Diversified Reinsurance Segment

Underwriting income decreased slightly in the three and nine months ended September 30, 2010 as compared to the same period in 2009. This was primarily due to a slightly higher combined ratio in both periods, which increased to 95.8% in the three months ended September 30, 2010 as compared to 94.9% for the same period in 2009, and 95.6%

in the nine months ended September 30, 2010 as compared to 94.3% for the same period in 2009.

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The following table summarizes the underwriting results and associated ratios for the Diversified Reinsurance segment:

|  | Three Months<br>Ended September 30, |          | Nine Months<br>Ended September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2010                                | 2009     | 2010                               | 2009     |
|  | (\$ in Millions)                    |          |                                    |          |
| Net premiums written                       | \$ 104.5                            | \$ 129.2 | \$ 409.1                           | \$ 529.0 |
| Net premiums earned                        | 142.4                               | 147.9    | 455.4                              | 401.7    |
| Net losses and loss expenses               | (95.4)                              | (110.4)  | (294.1)                            | (294.0)  |
| Commissions and other acquisition expenses | (34.2)                              | (26.1)   | (123.1)                            | (71.2)   |
| General and administrative expenses        | (6.8)                               | (3.8)    | (18.3)                             | (13.6)   |
| Underwriting income                        | \$ 6.0                              | \$ 7.6   | \$ 19.9                            | \$ 22.9  |
| Loss and loss expense ratio                | 67.0%                               | 74.7%    | 64.6%                              | 73.2%    |
| Acquisition cost ratio                     | 24.0%                               | 17.6%    | 27.0%                              | 17.7%    |
| General and administrative expense ratio   | 4.8%                                | 2.6%     | 4.0%                               | 3.4%     |
| Expense ratio                              | 28.8%                               | 20.2%    | 31.0%                              | 21.1%    |
| Combined ratio                             | 95.8%                               | 94.9%    | 95.6%                              | 94.3%    |

Premiums. Net premiums written decreased by \$24.7 million, or 19.2% for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The table below details net premiums written by line of business in this segment for the three months ended September 30, 2010 and 2009:

|                               | Three Months Ended September 30, |          |           |          |
|-------------------------------|----------------------------------|----------|-----------|----------|
|                               | 2010                             | 2009     | \$ Change | % Change |
|                               | (\$ in Millions)                 |          |           |          |
| Property                      | \$ 37.5                          | \$ 28.7  | \$ 8.8    | 30.6%    |
| Casualty                      | 54.2                             | 76.4     | (22.2)    | (29.1)%  |
| Accident and Health           | 12.8                             | 24.1     | (11.3)    | (47.0)%  |
| Total Diversified Reinsurance | \$ 104.5                         | \$ 129.2 | \$ (24.7) | (19.2)%  |

The Company continued to maintain its disciplined underwriting approach in the face of continuing competitive market conditions during the three months ended September 30, 2010. In addition, the Company did not renew certain Casualty and Accident and Health accounts that were either underperforming or did not meet the Company's pricing requirements relative to the exposures reinsured. In addition, some clients chose to retain more risk and did not renew accounts. These factors contributed to the decrease in net premium written in the three months ended September 30, 2010 as compared to the same period in 2009.

Net premiums written decreased by \$119.9 million, or 22.7% for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The table below details net premiums written by line of business in this segment for the nine months ended September 30, 2010 and 2009:

|          | Nine Months Ended September 30, |          |           |          |
|----------|---------------------------------|----------|-----------|----------|
|          | 2010                            | 2009     | \$ Change | % Change |
|          | (\$ in Millions)                |          |           |          |
| Property | \$ 131.8                        | \$ 105.7 | \$ 26.1   | 24.8%    |
| Casualty | 238.2                           | 331.7    | (93.5)    | (28.2)%  |

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|                               |          |          |            |         |
|-------------------------------|----------|----------|------------|---------|
| Accident and Health           | 39.1     | 91.6     | (52.5)     | (57.3)% |
| Total Diversified Reinsurance | \$ 409.1 | \$ 529.0 | \$ (119.9) | (22.7)% |

Consistent with its disciplined underwriting approach, the Company did not renew certain large Casualty accounts that did not meet its pricing requirements. Due to the nature of certain of these non-renewals, the Company does not anticipate similar non-renewals during the remainder of 2010. In addition, the Company did renew more than 85% of its accounts at its January 1 renewal in this segment. Finally, the Company did not renew certain underperforming Accident and Health accounts as well. These factors contributed to the decrease in net premium written in the nine months ended September 30, 2010 as compared to the same period in 2009.

Net premium earned decreased by \$5.5 million, or 3.7% for the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The table below details net premiums earned by line of business in this segment for the three months ended September 30, 2010 and 2009:

|                               | Three Months Ended September 30, |          |           |          |
|-------------------------------|----------------------------------|----------|-----------|----------|
|                               | 2010                             | 2009     | \$ Change | % Change |
|                               | (\$ in Millions)                 |          |           |          |
| Property                      | \$ 42.8                          | \$ 34.0  | \$ 8.8    | 26.1%    |
| Casualty                      | 86.0                             | 87.0     | (1.0)     | (1.2)%   |
| Accident and Health           | 13.6                             | 26.9     | (13.3)    | (49.4)%  |
| Total Diversified Reinsurance | \$ 142.4                         | \$ 147.9 | \$ (5.5)  | (3.7)%   |

The decrease in Accident and Health written premiums caused the decline in earned premiums, which were partially offset by increases in Property earned premiums due to increases in writings and the ongoing implementation of the GMAC Acquisition in 2009, which were assumed net of acquisition costs and which had not yet completed its first full year of operations. These premiums represented a significant portion of the premium earned in 2009, which resulted in lower earned premium in that period and thus also affects comparability from period to period with 2010.

Net premium earned increased by \$53.7 million, or 13.3% for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The table below details net premiums earned by line of business in this segment for the nine months ended September 30, 2010 and 2009:

|                               | Nine Months Ended September 30, |          |           |          |
|-------------------------------|---------------------------------|----------|-----------|----------|
|                               | 2010                            | 2009     | \$ Change | % Change |
|                               | (\$ in Millions)                |          |           |          |
| Property                      | \$ 132.2                        | \$ 99.5  | \$ 32.7   | 32.8%    |
| Casualty                      | 270.1                           | 224.7    | 45.4      | 20.2 %   |
| Accident and Health           | 53.1                            | 77.5     | (24.4)    | (31.4)%  |
| Total Diversified Reinsurance | \$ 455.4                        | \$ 401.7 | \$ 53.7   | 13.3%    |

Despite the decrease in net premiums written, earned premiums increased in 2010 as compared to 2009 due to the ongoing implementation of the GMAC Acquisition in 2009, which were assumed net of acquisition costs and which had not yet completed its first full year of operations. These premiums represented a significant portion of the premium earned in 2009, which resulted in lower earned premium in that period and thus also affects comparability from period to period with 2010.

**Loss and Loss Adjustment Expenses.** Loss and loss adjustment expenses decreased by \$15.0 million or 13.6% and increased by \$0.04 million or less than 1% for the three and nine months ended September 30, 2010 compared to the same periods in 2009, respectively. The segments loss ratio decreased to 67.0% and 64.6% for the three and nine months ended September 30, 2010 compared to 74.7% and 73.2% for the same periods in 2009. The decrease in loss and loss adjustment expenses reflects the decrease in the segments premiums in 2010 as compared to 2009. Earned premiums increased in 2010 as compared to 2009 due to the ongoing implementation of the GMAC Acquisition in 2009, as the unearned premiums associated with that transaction were assumed net of acquisition costs and which had not yet completed its first full year of operations. These premiums represented the majority of the premium earned in 2009, which resulted in lower earned premium in that period and thus produced higher loss ratios during 2009. The 2010 ratios more accurately reflect recurring loss ratios as the transition from the GMAC Acquisition was completed near the end of 2009.

In connection with the GMAC Acquisition, Maiden Bermuda entered in a loss portfolio transfer agreement with Motors whereby it assumed the outstanding loss reserves, including a provision for IBNR reserves associated with the

GMAC RE business (\$755.6 million at October 31, 2008). The loss reserves assumed by Maiden Bermuda from Motors represented the estimate of the unpaid losses to be paid on all of the reinsurance contracts produced by GMAC RE from 1983 until October 31, 2008. These losses are treated as retroactive reinsurance under applicable GAAP. Accordingly, any subsequent change in the estimate of the subject losses since the date of transfer are amortized into the Company's results of operations based upon the cumulative payment of actual claims in relation to the subject losses transferred.

The Company amortized gains in this segment as a reduction of losses incurred of \$8.8 million and \$20.4 million for the three and nine months ended September 30, 2010 as compared to \$1.8 million and \$7.6 million, in the same periods in 2009, respectively. The total favorable development relating to the loss portfolio transfer since the closing of the GMAC Acquisition has been \$43.2 million through September 30, 2010 as compared to \$18.2 million through December 31, 2009. The remaining unamortized deferred gain recorded as an addition to the Company's loss reserves are \$10.5 million as of September 30, 2010 as compared to \$5.7 million as of December 31, 2009.

**Commission and Other Acquisition Expenses.** Commission and other acquisition expenses increased by \$8.2 million or 31.3% and \$51.9 million or 72.9% for the three and nine months ended September 30, 2010 compared to the same periods in 2009, respectively. This increase was primarily due to the increase in Commission and Other Acquisition Expenses associated with the Diversified Reinsurance segment, which was driven by the following: 1) 2009 reflects only a partial year of earned premiums in this segment as the first full year of operations from the GMAC Acquisition had not yet been completed; 2) the unearned premium portfolio assumed as part of the GMAC Acquisition was acquired net of acquisition costs and thus acquisition costs in 2009 were reduced; and 3) the segments mix of business continues to shift from excess of loss to pro rata business which has a higher acquisition cost ratio. As a result, the acquisition cost ratio increased to 24.0% and 27.0% for the three and nine months ended September 30, 2010 as compared to 17.6% and 17.7% for the same periods in 2009, respectively. The 2010 ratios more accurately reflect recurring acquisition ratios as the transition from the GMAC Acquisition was completed near the end of 2009.

**General and Administrative Expenses.** General and administrative expenses increased by \$3.0 million or 78.2% and \$4.7 million or 34.9%, for the three and nine months ended September 30, 2010 compared to same period in 2009, respectively. The general and administrative expense ratio was 4.8% and 4.0% for the three and nine months ended September 30, 2010 compared to 2.6% and 3.4% in the same periods in 2009, respectively. The overall expense ratio (including acquisition costs) was 28.8% and 31.0% for the three and nine months ended September 30, 2010 compared to 20.2% and 21.1% in the same periods in 2009, respectively. The increase in the ratio is due to the factors cited under Commissions and Other Acquisition Expenses.

#### AmTrust Quota Share Segment

Underwriting income improved significantly in the three and nine months ended September 30, 2010, as compared to the same period in 2009, due to ongoing premium growth in the segment combined with generally stable combined ratios. The combined ratio for the segment was 95.6% in the three months ended September 30, 2010 as compared to 94.7% for the same period in 2009, and 95.7% in the nine months ended September 30, 2010 as compared to 96.0% for the same period in 2009. The following table summarizes the underwriting results and associated ratios for the AmTrust Quota Share segment for the three and nine months ended September 30, 2010 and 2009:

|  | For the Three Months<br>Ended September 30, |         | For the period<br>March 1, to September 30, |          |
|--|---|---------|---|----------|
|  | 2010  | 2009    | 2010  | 2009     |
|  | (\$ in Millions)                            |         |   |          |
| Net premiums written                       | \$ 110.3                                    | \$ 92.2 | \$ 341.0                                    | \$ 267.3 |
| Net premiums earned                        | \$ 120.7                                    | \$ 89.5 | \$ 333.1                                    | \$ 269.5 |
| Net losses and loss expenses               | (76.2)                                      | (54.7)  | (209.2)                                     | (168.4)  |
| Commissions and other acquisition expenses | (39.0)                                      | (29.3)  | (108.3)                                     | (88.4)   |
| General and administrative expenses        | (0.2)                                       | (0.8)   | (1.3)                                       | (1.9)    |
| Underwriting income                        | \$ 5.3                                      | \$ 4.7  | \$ 14.3                                     | \$ 10.8  |
| Net loss and loss expense ratio            | 63.1%                                       | 61.1%   | 62.8%                                       | 62.5%    |
| Acquisition cost ratio                     | 32.3%                                       | 32.7%   | 32.5%                                       | 32.8%    |
| General and administrative expense ratio   | 0.2%  | 0.9%    | 0.4%  | 0.7%     |
| Expense ratio                              | 32.5%                                       | 33.6%   | 32.9%                                       | 33.5%    |
| Combined ratio                             | 95.6%                                       | 94.7%   | 95.7%                                       | 96.0%    |

Premiums Written. Net premiums written increased by \$18.1 million or 19.7% for the nine months ended September 30, 2010 as compared to the same period in 2009. The increase in net premiums written in the three months ended September 30, 2010 compared to the same period in 2009 is primarily the result of significant growth in the Specialty Program and Small Commercial lines of business, with slower growth experienced in the Specialty Risk and Extended Warranty line. The table below details components of net premiums written for the three months ended September 30, 2010 as compared to the same period in 2009:

|                                      | Three Months Ended September 30, |         |           |          |
|--------------------------------------|----------------------------------|---------|-----------|----------|
|                                      | 2010                             | 2009    | \$ Change | % Change |
|                                      | (\$ in Millions)                 |         |           |          |
| Small Commercial Business            | \$ 43.7                          | \$ 34.1 | \$ 9.6    | 28.1%    |
| Specialty Program Business           | 21.0                             | 13.1    | 7.9       | 60.9%    |
| Specialty Risk and Extended Warranty | 45.6                             | 45.0    | 0.6       | 1.4%     |
| Total AmTrust Quota Share            | \$ 110.3                         | \$ 92.2 | \$ 18.1   | 19.7%    |

Net premiums written increased by \$73.7 million or 27.5% for the nine months ended September 30, 2010 as compared to the same period in 2009. For the nine months ended September 30, 2010 compared to the same period in 2009, the increase was primarily due to a substantial increase in the Specialty Risk and Extended Warranty line of business, where AmTrust continues expand, particularly internationally, along with growth in its Specialty Program business. The table below details components of net premiums written for the nine months ended September 30, 2010 as compared to the same period in 2009:

|                                      | Nine Months Ended September 30, |          |           |          |
|--------------------------------------|---------------------------------|----------|-----------|----------|
|                                      | 2010                            | 2009     | \$ Change | % Change |
|                                      | (\$ in Millions)                |          |           |          |
| Small Commercial Business            | \$ 147.5                        | \$ 133.0 | \$ 14.5   | 10.9%    |
| Specialty Program Business           | 51.9                            | 35.0     | 16.9      | 48.1%    |
| Specialty Risk and Extended Warranty | 141.6                           | 99.3     | 42.3      | 42.6%    |
| Total AmTrust Quota Share            | \$ 341.0                        | \$ 267.3 | \$ 73.7   | 27.5%    |

Premiums Earned. Net premiums earned increased by \$31.2 million or 35.0% for the three months ended September 30, 2010 as compared to the same period in 2009. The increase in net premiums earned in the three months ended September 30, 2010 compared to the same period in 2009 is primarily the result of significant growth in the Specialty Program and Small Commercial lines of business, with slower growth experienced in the Specialty Risk and Extended Warranty line. For the nine months ended September 30, 2010 compared to the same period in 2009, the increase was primarily due to a substantial increase in the Specialty Risk and Extended Warranty line of business, where AmTrust continues expand, particularly internationally, along with growth in its Specialty Program business. The table below details components of net premiums earned for the three months ended September 30, 2010 as compared to the same period in 2009:

|                                      | Three Months Ended September 30, |         |           |          |
|--------------------------------------|----------------------------------|---------|-----------|----------|
|                                      | 2010                             | 2009    | \$ Change | % Change |
|                                      | (\$ in Millions)                 |         |           |          |
| Small Commercial Business            | \$ 46.7                          | \$ 50.9 | \$ (4.2)  | (8.2)%   |
| Specialty Program Business           | 21.5                             | 11.4    | 10.1      | 88.1%    |
| Specialty Risk and Extended Warranty | 52.5                             | 27.2    | 25.3      | 93.4%    |
| Total AmTrust Quota Share            | \$ 120.7                         | \$ 89.5 | \$ 31.2   | 35.0%    |

Net premiums earned increased by \$63.6 million or 23.6% for the nine months ended September 30, 2010 as compared to the same period in 2009. The table below details components of net premiums earned for the nine



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months ended September 30, 2010 as compared to the same period in 2009:

|                                      | Nine Months Ended September 30 |          |           |          |
|--------------------------------------|--------------------------------|----------|-----------|----------|
|                                      | 2010                           | 2009     | \$ Change | % Change |
|                                      | (\$ in Millions)               |          |           |          |
| Small Commercial Business            | \$ 154.9                       | \$ 157.6 | \$ (2.7)  | (1.8)%   |
| Specialty Program Business           | 53.0                           | 37.9     | 15.1      | 39.9%    |
| Specialty Risk and Extended Warranty | 125.2                          | 74.0     | 51.2      | 69.2%    |
| Total AmTrust Quota Share            | \$ 333.1                       | \$ 269.5 | \$ 63.6   | 23.6%    |

Loss and Loss Adjustment Expenses. Net losses and loss expenses increased by \$21.5 million or 39.3% and \$40.7 million or 24.2% for the three and nine months ended September 30, 2010 as compared to the same periods in 2009, respectively. The segments loss ratio increased to 63.1% and 62.8% for the three and nine months ended September 30, 2010 compared to 61.1% and 62.5% for the same periods in 2009.

**Commission and Other Acquisition Expenses.** Commission and other acquisition expenses increased by \$9.8 million or 33.4% and \$19.9 million or 22.5% for the three and nine months ended September 30, 2010 compared to the same periods in 2009, respectively. The increase in commissions and other acquisition expenses is consistent with the increase in earned premiums.

**General and Administrative Expenses.** General and administrative expenses decreased by \$0.6 million for the three and nine months ended September 30, 2010 compared to the same period in 2009. The decrease reflects the continued diversification of the Company's overall book of business among different segments and the resulting decreased allocation of overhead expenses to this segment in 2010 as compared to 2009.

#### ACAC Quota Share Segment

This segment commenced on March 1, 2010. Please refer to the above discussion of the ACAC Transaction. For the three months ended September 30, 2010, the combined ratio was 96.6% and for the period from March 1 to September 30, 2010, the combined ratio was 96.7%, consisting of a loss ratio of 62.5% and an expense ratio of 34.2%.

|  | For the Three Months<br>Ended September 30, |      | For the period<br>March 1, to September 30, |      |
|--|---|------|---|------|
|  | 2010  | 2009 | 2010  | 2009 |
|  | (\$ in Millions)                            |      |   |      |
| Net premiums written                       | \$ 58.7                                     | \$ — | \$ 147.7                                    | \$ — |
| Net premiums earned                        | \$ 46.4                                     | \$ — | \$ 68.8                                     | \$ — |
| Net losses and loss expenses               | (29.0)                                      | —    | (43.0)                                      | —    |
| Commissions and other acquisition expenses | (15.7)                                      | —    | (23.4)                                      | —    |
| General and administrative expenses        | (0.1)                                       | \$ — | (0.1)                                       | —    |
| Underwriting income                        | \$ 1.6                                      | \$ — | \$ 2.3                                      | \$ — |
| Net loss and loss expense ratio            | 62.5%                                       | —%   | 62.5%                                       | —%   |
| Acquisition cost ratio                     | 33.9%                                       | —%   | 34.0%                                       | —%   |
| General and administrative expense ratio   | 0.2%  | —%   | 0.2%  | —%   |
| Expense ratio                              | 34.1%                                       | — %  | 34.2%                                       | — %  |
| Combined ratio                             | 96.6%                                       | — %  | 96.7%                                       | — %  |

**Premiums.** The table below details components of net premiums written and earned for the three months ended September 30, 2010 and for the period from March 1 to September 30, 2010:

|                            | For the Three Months<br>Ended September 30, |                           | For the period<br>March 1, to September 30, |                           |
|----------------------------|---|---------------------------|---|---------------------------|
|                            | Written<br>Premium<br>2010                  | Earned<br>Premium<br>2010 | Written<br>Premium<br>2010                  | Earned<br>Premium<br>2010 |
|                            | (\$ in Millions)                            |                           |   |                           |
| Automobile liability       | \$ 33.6                                     | \$ 26.0                   | \$ 84.5                                     | \$ 38.6                   |
| Automobile physical damage | 25.1  | 20.4                      | 63.2  | 30.2                      |
| Total ACAC Quota Share     | \$ 58.7                                     | \$ 46.4                   | \$ 147.7                                    | \$ 68.8                   |

#### Liquidity and Capital Resources

##### Liquidity

Maiden Holdings is a holding company and transacts no business of its own. We therefore rely on cash flows to Maiden Holdings in the form of dividends, advances and loans and other permitted distributions from its subsidiary companies to make dividend payments on its common shares.

The jurisdictions in which our operating subsidiaries are licensed to write business impose regulations requiring companies to maintain or meet various defined statutory ratios, including solvency and liquidity requirements. Some jurisdictions also place restrictions on the declaration and payment of dividends and other distributions.

The payment of dividends from Maiden Holdings' Bermuda-domiciled operating subsidiary Maiden Bermuda is, under certain circumstances, limited under Bermuda law, which requires our Bermuda operating subsidiary to maintain certain measures of solvency and liquidity. In addition, Bermuda regulations require prior approval from the Bermuda Monetary Authority for any reduction of capital in excess of 15% of statutory capital, as defined in the Bermuda Insurance Act of 1978 and related regulations. At September 30, 2010, the statutory capital and surplus of Maiden Bermuda was \$655.9 million, and the amount of capital and surplus required to be maintained was \$484.7 million. During 2010 and 2009, Maiden Bermuda paid no dividends to Holdings.

Maiden Holdings' U.S. domiciled operating subsidiaries, Maiden US and Maiden Specialty, are subject to significant regulatory restrictions limiting their ability to declare and pay dividends by their states of domicile, which are Missouri and North Carolina, respectively. In addition, there are restrictions based on risk-based capital tests which are the threshold that constitutes the authorized control level. If Maiden US or Maiden Specialty's statutory capital and surplus falls below the authorized control level, their respective domiciliary insurance regulators are authorized to take whatever regulatory actions are considered necessary to protect policyholders and creditors. The inability of the subsidiaries of Maiden Holdings to pay dividends and other permitted distributions could have a material adverse effect on Maiden Holdings' cash requirements and ability to make principal, interest and dividend payments on its senior notes and common shares. During 2010 and 2009, Maiden US and Maiden Specialty paid no dividends.

Our sources of funds primarily consist of premium receipts net of commissions, investment income, net proceeds from capital raising activities, which may include the issuance of common shares, and proceeds from sales and redemption of investments. Cash is used primarily to pay losses and loss expenses, general and administrative expenses and dividends, with the remainder made available to our investment managers for investment in accordance with our investment policy. A summary of cash flows from and (used) in operating, investing and financing activities for the nine months ended September 30, 2010 and 2009 is as follows:

|   | September 30,    |           |
|---|------------------|-----------|
|   | 2010             | 2009      |
|   | (\$ in Millions) |           |
| Operating activities                        | \$ 114.2         | \$ (11.2) |
| Investing activities                        | 87.6             | (144.2)   |
| Financing activities                        | (39.4)           | 117.2     |
| Effect of foreign exchange on cash          | (0.3)            | 0.9       |
| Total increase in cash and cash equivalents | \$ 162.1         | \$ (37.3) |

Cash flows provided by operations for the nine months ended September 30, 2010 were \$114.2 million compared to cash flow used in operations of \$11.2 million for the nine months ended September 30, 2009. The increase in net premiums written offset by a slightly higher combined ratio accounted for the change in operating cash flow.

Investing cash flows consist primarily of proceeds on the sale of investments and payments for investments acquired. We generated \$87.6 million in net cash from investing activities during the nine months ended September 30, 2010 compared to using \$144.2 million for the nine months ended September 30, 2009. This reflects the sales of certain securities which had not been reinvested by quarter-end due to the decline in interest rates which limited our reinvestment opportunities along with increased prepayments of certain mortgage-backed securities, also brought about by the decline in interest rates.

Cash flows used by financing activities were \$39.4 million for the nine months ended September 30, 2010 compared to \$117.2 million provided by financing activities for the nine months ended September 30, 2009. In 2010, cash flow used consisted of dividends paid of \$13.7 million and the repayment of \$25.7 million of the proceeds from the securities sold under agreements to repurchase, at contract value. Cash flows provided by financing activities for the nine months ended September 30, 2009 were the TRUPS Offering (net of expenses) of \$255.7 million, reduced by dividends paid of \$12.0 million and the repayment of \$126.6 million of the proceeds from the securities sold under agreements to repurchase, at contract value.

At September 30, 2010, the Company has cash and cash equivalents (including restricted cash and cash equivalents) totaling \$488.4 million, which was an increase from \$347.5 million at June 30, 2010 and \$252.3 million at December 31, 2009. The increase was due to a significant increase in cash flow from operations and investing activities in the three and nine months ended September 30, 2010. The continuing increase in cash and cash equivalents reflects a challenging fixed income security market place, where significant price appreciation has reduced yields to historically

low levels. The continuing sharp decline in interest rates, the combined result of slower than anticipated economic growth particularly in the United States and aggressive monetary policy by central banks worldwide, both of which are expected to continue for the foreseeable future, has limited the amount and type of fixed income investments the Company has made and believes are consistent with its investment philosophy. Further, the Company believes the current interest rate environment presents significant interest rate risk over the intermediate term, making longer duration fixed income investments potentially more volatile than both historical and recent experience would indicate.

As a result, the Company has been deploying its accumulated cash and cash equivalents in a measured and deliberate manner, as to date it continues to believe that its investment philosophy and the portfolio's duration are appropriate. As a result, despite the continuing increase in the Company's investable assets, now totaling \$2.2 billion as of September 30, 2010 as compared to \$2.1 billion as of December 31, 2009, the Company's investment income declined in the third quarter 2010 compared to the second quarter 2010 and prospectively may not grow at a pace commensurate with the increase in investable assets over the coming quarters. The Company will continue to deploy its cash as quickly and as prudently as investment opportunities consistent with its investment philosophy present themselves.

## Restrictions, Collateral and Specific Requirements

Maiden Bermuda is neither licensed nor admitted as an insurer, nor is it accredited as a reinsurer, in any jurisdiction in the United States. As a result, it is generally required to post collateral security with respect to any reinsurance liabilities it assumes from ceding insurers domiciled in the United States in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to insurance liabilities ceded to them. Under applicable statutory provisions, the security arrangements may be in the form of letters of credit, reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company.

At this time, Maiden Bermuda uses trust accounts primarily to meet collateral requirements – cash equivalents and investments pledged in favor of ceding companies in order to comply with relevant insurance regulations.

Maiden US also offers to its clients, on a voluntary basis, the ability to collateralize certain liabilities related to the reinsurance contracts it issues. Under these arrangements, Maiden U.S. retains broad investment discretion in order to achieve its business objectives while offering clients the additional security a collateralized arrangement offers. We believe this offers the Company a significant competitive advantage and improves the Company's retention of high-quality clients. As a result of the transition of relationships as a result of the GMAC Acquisition, as of September 30, 2010, certain of these liabilities and collateralized arrangements are recorded in Maiden Bermuda while the remaining are recorded in Maiden US.

As of September 30, 2010, total trust account deposits were \$1,468.5 million compared to \$1,375.6 million as of December 31, 2009. The following table details additional information on the trust account deposits by segment and by underlying asset as of September 30, 2010 and December 31, 2009:

|  | September 30, 2010    |                     |                   | December 31, 2009     |                     |                   |
|--|-----------------------|---------------------|-------------------|-----------------------|---------------------|-------------------|
|  | Cash &<br>Equivalents | Fixed<br>Maturities | Total             | Cash &<br>Equivalents | Fixed<br>Maturities | Total             |
|  | (\$ in Millions)      |                     |                   |                       |                     |                   |
| Maiden US                                    | \$ 79.0               | \$ 483.7            | \$ 562.7          | \$ 38.6               | \$ 258.9            | \$ 297.5          |
| Maiden Bermuda                               | 85.1                  | 478.5               | 563.6             | 94.8                  | 776.3               | 871.1             |
| <b>Total Diversified Reinsurance Segment</b> | <b>164.1</b>          | <b>962.2</b>        | <b>1,126.3</b>    | <b>133.4</b>          | <b>1,035.2</b>      | <b>1,168.6</b>    |
| Maiden Bermuda                               | 54.8                  | 287.4               | 342.2             | 11.5                  | 195.5               | 207.0             |
| <b>Total AmTrust Quota Share Segment</b>     | <b>54.8</b>           | <b>287.4</b>        | <b>342.2</b>      | <b>11.5</b>           | <b>195.5</b>        | <b>207.0</b>      |
| <b>Total</b>                                 | <b>\$ 218.9</b>       | <b>\$ 1,249.6</b>   | <b>\$ 1,468.5</b> | <b>\$ 144.9</b>       | <b>\$ 1,230.7</b>   | <b>\$ 1,375.6</b> |

As part of the AmTrust Quota Share, Maiden Bermuda has also loaned funds totaling \$168.0 million as of September 30, 2010 and December 31, 2009, respectively, to AII to satisfy collateral requirements. In addition, Maiden Bermuda has outstanding letters of credit totaling \$23.2 million and \$19.6 million as of September 30, 2010 and December 31, 2009, respectively.

Collateral arrangements with ceding insurers may subject our assets to security interests or require that a portion of our assets be pledged to, or otherwise held by, third parties. Both our trust accounts and letter of credit are fully collateralized by assets held in custodial accounts. Although the investment income derived from our assets while held in trust accrues to our benefit, the investment of these assets is governed by the terms of the letter of credit facilities or the investment regulations of the state or territory of domicile of the ceding insurer, which may be more restrictive than the investment regulations applicable to us under Bermuda law. The restrictions may result in lower investment yields on these assets, which may adversely affect our profitability.

We do not currently anticipate that the restrictions on liquidity resulting from restrictions on the payments of dividends by our subsidiary companies or from assets committed in trust accounts or to collateralize the letter of credit facilities will have a material impact on our ability to carry out our normal business activities, including, our ability to make dividend payments on our common shares.

## Investments

Our funds are primarily invested in liquid, high-grade fixed income securities. The table below shows the aggregate amounts of our invested assets at fair value at September 30, 2010 and December 31, 2009:

| September 30, 2010                            | Original or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|----------------------------------|------------------------------|-------------------------------|---------------|
| (\$ in Millions)                              |                                  |                              |                               |               |
| Fixed Maturities:                             |                                  |                              |                               |               |
| U.S. Treasury bonds                           | \$ 43.6                          | \$ 1.6                       | \$ —                          | \$ 45.2       |
| U.S. Agency bonds – mortgage and asset-backed | 678.9                            | 27.5                         | —                             | 706.4         |
| U.S. Agency bonds – other                     | 67.7                             | 2.4                          | —                             | 70.1          |
| Corporate fixed maturities                    | 674.2                            | 57.8                         | (13.8)                        | 718.2         |
| Municipal bonds                               | 41.0                             | 1.5                          | —                             | 42.5          |
| Total available-for-sale fixed maturities     | 1,505.4                          | 90.8                         | (13.8)                        | 1,582.4       |
| Other investments                             | 5.5                              | —                            | —                             | 5.5           |
| Total investments                             | \$ 1,510.9                       | \$ 90.8                      | \$ (13.8)                     | \$ 1,587.9    |
|   |                                  |                              |                               |               |
| December 31, 2009                             | Original or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Gains  | Fair<br>Value |
| (\$ in Millions)                              |                                  |                              |                               |               |
| Fixed Maturities:                             |                                  |                              |                               |               |
| U.S. Treasury bonds                           | \$ 39.3                          | \$ 0.2                       | \$ (0.3)                      | \$ 39.2       |
| U.S. Agency bonds – mortgage and asset-backed | 779.4                            | 17.5                         | (2.3)                         | 794.6         |
| U.S. Agency bonds – other                     | 217.2                            | 4.8                          | (0.5)                         | 221.5         |
| Corporate fixed maturities                    | 564.8                            | 38.0                         | (20.1)                        | 582.7         |
| Municipal bonds                               | 22.7                             | 1.0                          | —                             | 23.7          |
| Total available-for-sale fixed maturities     | 1,623.4                          | 61.5                         | (23.2)                        | 1,661.7       |
| Other investments                             | 5.7                              | —                            | (0.1)                         | 5.6           |
| Total investments                             | \$ 1,629.1                       | \$ 61.5                      | \$ (23.3)                     | \$ 1,667.3    |

Despite the growth in premium and significant improvement in cash flow from operations in 2010 as compared to 2009, total investments in fixed maturities were relatively unchanged at September 30, 2010 as compared to 2009. As noted in the section on Liquidity and Cash Flow, the Company experienced a significant increase in cash flow from operations and investing activities in the three and nine months ended September 30, 2010 as compared to the same periods in 2009, respectively, but had not as yet fully invested this cash flow in fixed maturity investments. This increase in cash and cash equivalents may limit the continuing increases in investment income until these elevated levels of cash and cash equivalents are fully invested.

The Company may, from time to time, engage in investment activity that will be considered trading activity, in amounts generally less than \$100 million. This trading activity is generally focused on taking long or short positions in United States Treasury securities. These activities, which commenced in the second quarter of 2010 are classified as trading for the purpose of augmenting where possible investment returns. As of September 30, 2010, the Company maintained one open position in a U.S. treasury bond sold but not yet purchased valued at \$54.3 million which resulted in an unrealized loss of \$2.0 million and \$4.7 million for the three and nine months ended September 30, 2010, which is recorded in net realized and unrealized gains (losses) on the Company's consolidated statements of income.



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As noted in the section in Liquidity and Cash Flow, the company has sold certain securities with shorter durations and embedded gains while also trading certain U.S. Treasury securities in both long and short positions, which has resulted in increased trades with gain and loss activity. These gains and losses can be further analyzed as follows:

|  | For the Three Months Ended |                       | For the Nine Months Ended |                       |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
|  | September 30,<br>2010      | September 30,<br>2009 | September 30,<br>2010     | September 30,<br>2009 |
| Realized gains (losses) on available-for-sale securities   | \$ 3.5                     | \$ —                  | \$ 7.7                    | \$ (0.3)              |
| Realized gains (losses) from trading securities            | 0.3                        | —                     | (0.3)                     | —                     |
| Other investments  | (0.3)                      | (0.1)                 | (0.2)                     | (0.1)                 |
| Unrealized loss from investment sold but not yet purchased | (1.9)                      | —                     | (4.7)                     | —                     |
| Total  | \$ 1.6                     | \$ (0.1)              | \$ 2.5                    | \$ (0.4)              |

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The following table presents information regarding our invested assets that were in an unrealized loss position at September 30, 2010 and December 31, 2009 by the amount of time in a continuous unrealized loss position:

| September 30, 2010                              | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
|   | (\$ in Millions)    |                   |                   |                   |            |                   |
| Available-for-sale securities:                  |                     |                   |                   |                   |            |                   |
| U.S. treasury bonds                             | \$ -                | \$ -              | \$ -              | \$ -              | \$ -       | \$ -              |
| U.S. agency bonds – mortgage and asset - backed | 2.5                 | -                 | 1.9               | -                 | 4.4        | -                 |
| U.S. agency bonds – other                       | -                   | -                 | -                 | -                 | -          | -                 |
| Corporate fixed maturities                      | 36.6                | (0.9)             | 153.4             | (12.9)            | 190.0      | (13.8)            |
| Municipal bonds                                 | 9.2                 | -                 | -                 | -                 | 9.2        | -                 |
| Total available-for-sale fixed maturities       | \$ 48.3             | \$ (0.9)          | \$ 155.3          | \$ (12.9)         | \$ 203.6   | \$ (13.8)         |
| Other investments                               | \$ 4.7              | \$ -              | \$ -              | \$ -              | \$ 4.7     | \$ -              |
| Total   | \$ 53.0             | \$ (0.9)          | \$ 155.3          | \$ (12.9)         | \$ 208.3   | \$ (13.8)         |

As of September 30, 2010, there were approximately 20 securities in an unrealized loss position with a fair value of \$208.3 million and unrealized losses of \$13.8 million. Of these securities, there are 10 securities that have been in an unrealized loss position for 12 months or greater with a fair value of \$155.3 million and unrealized losses of \$12.9 million.

| December 31, 2009                               | Less than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
|   | (\$ in Millions)    |                   |                   |                   |            |                   |
| Available-for-sale securities:                  |                     |                   |                   |                   |            |                   |
| U.S. treasury bonds                             | \$ 8.6              | \$ (0.3)          | \$ -              | \$ -              | \$ 8.6     | \$ (0.3)          |
| U.S. agency bonds – mortgage and asset - backed | 235.0               | (2.3)             | 0.7               | -                 | 235.7      | (2.3)             |
| U.S. agency bonds – other                       | 59.5                | (0.5)             | -                 | -                 | 59.5       | (0.5)             |
| Corporate fixed maturities                      | 11.7                | (0.6)             | 193.7             | (19.5)            | 205.4      | (20.1)            |
| Total available-for-sale fixed maturities       | \$ 314.8            | \$ (3.7)          | \$ 194.4          | \$ (19.5)         | \$ 509.2   | \$ (23.2)         |
| Other investments                               | \$ -                | \$ -              | \$ 4.9            | \$ (0.1)          | \$ 4.9     | \$ (0.1)          |
| Total   | \$ 314.8            | \$ (3.7)          | \$ 199.3          | \$ (19.6)         | \$ 514.1   | \$ (23.3)         |

As of December 31, 2009, there were approximately 34 securities in an unrealized loss position with a fair value of \$514.1 million and unrealized losses of \$23.3 million. Of these securities, there are 14 securities that have been in an unrealized loss position for 12 months or greater with a fair value of \$199.3 million and unrealized losses of \$19.6 million.

The following table summarizes the fair value by contractual maturity of our fixed maturity investment maturity distribution of our fixed income portfolio (on a fair value basis) as of September 30, 2010 and December 31, 2009 was as follows:

|                       |                      |
|-----------------------|----------------------|
| September 30,<br>2010 | December 31,<br>2009 |
|-----------------------|----------------------|

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|  | (\$ in Millions) | % of Total | (\$ in Millions) | % of Total |
|--|------------------|------------|------------------|------------|
| Due in one year or less                        | \$ 97.1          | 6.1%       | \$ 159.4         | 9.6%       |
| Due after one year through five years          | 175.3            | 11.1%      | 222.4            | 13.4%      |
| Due after five years through ten years         | 525.1            | 33.2%      | 366.7            | 22.1%      |
| Due after ten years                            | 78.5             | 5.0%       | 118.6            | 7.1%       |
| U.S. agency bonds - mortgage-backed securities | 706.4            | 44.6%      | 794.6            | 47.8%      |
| Total  | \$ 1,582.4       | 100.0%     | \$ 1,661.7       | 100.0%     |

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As of September 30, 2010 and December 31, 2009, more than 99% of our fixed income portfolio consisted of investment grade securities. We define a security as being below-investment grade if it has an S&P credit rating of BB or less. The following table summarizes the composition of the fair value of our fixed maturity investments at the dates indicated by ratings as assigned by Standard & Poor's ("S&P") and/or other rating agencies when S&P ratings were not available:

| Ratings as of September 30, 2010                   | Amortized Cost | Fair Market Value<br>(\$ in Millions) | % of Total Fair Market Value |
|--|----------------|---------------------------------------|------------------------------|
| U.S. treasury bonds                                | \$ 43.6        | \$ 45.2                               | 2.9%                         |
| AAA U.S. agency bonds – mortgage backed securities | 678.9          | 706.4                                 | 44.6%                        |
| AAA  | 129.2          | 136.1                                 | 8.6%                         |
| AA+, AA, AA-                                       | 72.7           | 79.0                                  | 5.0%                         |
| A+, A, A-  | 326.6          | 333.5                                 | 21.1%                        |
| BBB+, BBB, BBB-                                    | 248.3          | 275.6                                 | 17.4%                        |
| B or lower   | 6.1            | 6.6                                   | 0.4%                         |
| Total  | \$ 1,505.4     | \$ 1,582.4                            | 100.0%                       |

| Ratings as of December 31, 2009                    | Amortized Cost | Fair Market Value<br>(\$ in Millions) | % of Total Fair Market Value |
|--|----------------|---------------------------------------|------------------------------|
| U.S. treasury bonds                                | \$ 39.3        | \$ 39.2                               | 2.4%                         |
| AAA U.S. agency bonds – mortgage backed securities | 779.4          | 796.6                                 | 47.9%                        |
| AAA  | 265.6          | 272.2                                 | 16.4%                        |
| AA+, AA, AA-                                       | 51.6           | 57.4                                  | 3.4%                         |
| A+, A, A-  | 290.0          | 285.4                                 | 17.2%                        |
| BBB+, BBB, BBB-                                    | 187.6          | 201.4                                 | 12.1%                        |
| B or lower   | 9.9            | 9.5                                   | 0.6%                         |
| Total  | \$ 1,623.4     | \$ 1,661.7                            | 100.0%                       |

The Company holds no asset-backed securities or sovereign securities of foreign governments. The majority of the Company's U.S. government agency-based securities holdings are mortgage-backed securities. Additional details on the mortgage-backed securities component of our U.S. government agency-based investment portfolio at September 30, 2010 and December 31, 2009 are provided below:

|                                    | September 30, 2010 |            | December 31, 2009 |            |
|------------------------------------|--------------------|------------|-------------------|------------|
|                                    | Fair Value         | % of Total | Fair Value        | % of Total |
|                                    | (\$ in Millions)   |            |                   |            |
| Mortgage-backed securities         |                    |            |                   |            |
| Residential mortgage-backed (RMBS) |                    |            |                   |            |
| GNMA – Fixed Rate                  | \$ 302.9           | 39.0%      | \$ 333.1          | 32.8%      |
| FNMA – Fixed Rate                  | 151.9              | 19.6%      | 125.5             | 12.3%      |
| FNMA – Variable Rate               | 87.7               | 11.3%      | 135.7             | 13.4%      |
| FHLMC – Fixed Rate                 | 162.0              | 20.9%      | 200.3             | 19.7%      |
| FHLMC – Variable Rate              | 1.9                | 0.2%       | –                 | –%         |
| Total agency RMBS                  | 706.4              | 91.0%      | 794.6             | 78.2%      |
| Commercial mortgage-backed         | –                  | –%         | –                 | –%         |
| Total mortgage-backed securities   | 706.4              | 91.0%      | 794.6             | 78.2%      |

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|                                      |          |        |            |        |
|--------------------------------------|----------|--------|------------|--------|
| Non-MBS fixed rate Agency securities | 70.1     | 9.0%   | 221.5      | 21.8%  |
| Total U.S. Agency bonds              | \$ 776.5 | 100.0% | \$ 1,016.1 | 100.0% |

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The Company has also increased its holdings of corporate securities in 2010 and 2009 to take advantage of various investment opportunities in this asset class. As of September 30, 2010 and December 31, 2009, 34.3% and 46.8% of its corporate securities were variable rate securities. Security holdings by sector in this asset class as of September 30, 2010 and December 31, 2009 are as follows:

|                            | September 30, 2010 |            | December 31, 2009 |            |
|----------------------------|--------------------|------------|-------------------|------------|
|                            | Fair Value         | % of Total | Fair Value        | % of Total |
| Corporate Securities       | (\$ in Millions)   |            |                   |            |
| Financial Institutions     | \$ 525.2           | 73.1%      | \$ 430.4          | 73.9%      |
| Industrials                | 138.4              | 19.3%      | 108.6             | 18.6%      |
| Utilities/Other            | 54.6               | 7.6%       | 43.7              | 7.5%       |
| Total Corporate Securities | \$ 718.2           | 100.0%     | \$ 582.7          | 100.0%     |

As of September 30, 2010 and December 31, 2009, the Company has \$2.6 million and \$0, respectively, in fixed maturity investments that are guaranteed by third parties all of which are guaranteed by Assured Guaranty Corp. The Company also has no direct exposure to third party guarantors as of September 30, 2010 or December 31, 2009.

#### Financial Strength Ratings

Financial strength ratings represent the opinions of rating agencies on our capacity to meet our obligations. Some of our reinsurance treaties contain special funding and termination clauses that are triggered in the event that we or one of our subsidiaries is downgraded by one of the major rating agencies to levels specified in the treaties, or our capital is significantly reduced. If such an event were to happen, we would be required, in certain instances, to post collateral in the form of letters of credit and/or trust accounts against existing outstanding losses, if any, related to the treaty. In a limited number of instances, the subject treaties could be cancelled retroactively or commuted by the cedant and might affect our ability to write business. As of September 30, 2010, our financial strength rating from A.M. Best was A-.

#### Other Material Changes in Financial Position

The following summarizes other material changes in the financial position of the Company as of September 30, 2010 and December 31, 2009.

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
|   | (\$ in Millions)      |                      |
| Reinsurance balances receivable               | \$ 244.4              | \$ 211.3             |
| Prepaid reinsurance                           | 31.6                  | 28.8                 |
| Deferred acquisition costs                    | 187.2                 | 173.0                |
| Reserve for loss and loss adjustment expenses | (1,093.9)             | (1,006.3)            |
| Unearned premiums                             | (628.2)               | (583.5)              |

The increase in reinsurance balances receivable and unearned premium reflects the growth in net premiums written in the AmTrust and ACAC Quota Shares in the first nine months of 2010.

#### Capital Resources

Capital resources consist of funds deployed or available to be deployed in support of our business operations. Our total capital resources at September 30, 2010 and December 31, 2009 were as follows:

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|                                       | September 30,<br>2010 | December 31,<br>2009 |
|---------------------------------------|-----------------------|----------------------|
|                                       | (\$ in Millions)      |                      |
| Junior subordinated debt              | \$ 215.2              | \$ 215.1             |
| Shareholders' equity                  | 758.4                 | 676.5                |
| Total capital resources               | \$ 973.6              | \$ 891.6             |
| Ratio of debt to total capitalization | 22.1%                 | 24.1%                |

As of September 30, 2010, our shareholders' equity was \$758.4 million, a 12.1% increase compared to \$676.5 million as of December 31, 2009. The increase was due primarily to net income for the nine months ended September 30, 2010 of \$50.7 million and unrealized gains on investments of \$44.2 million offset by dividends declared of \$13.8 million.

On January 20, 2009, as part of the TRUPS Offering the Company established a special purpose trust for the purpose of issuing trust preferred securities. This involved private placement of 260,000 units (the “Units”), each Unit consisting of \$1,000 principal amount of capital securities (the “Trust Preferred Securities”) of Maiden Capital Financing Trust (the “Trust”) and 45 common shares, \$.01 par value, of the Company (the “Common Shares”), for a purchase price of \$1,000.45 per Unit.

As part of the transaction, the Company issued 11,700,000 common shares to the purchasers of the Trust Preferred Securities. The Trust Preferred Securities mature in 2039 and carry an interest rate of 14% and an effective rate of interest of 16.76%. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in subordinated debentures issued by the Company. The gross proceeds to the Company were approximately \$260.1 million in the form of junior subordinated debt, before approximately \$4.3 million of placement agent fees and expenses.

Under the terms of the TRUPS Offering, the Company can repay the principal balance in full or in part at any time. However, if the Company repays such principal within five years of the date of issuance, it is required to pay an additional amount equal to one full year of interest on the amount of Trust Preferred Securities repaid. If the full amount of the Trust Preferred Securities were repaid within five years of the date of issuance, the additional amount due would be \$36.4 million, which would be a reduction in earnings.

Further, the value of the common shares issued to purchasers of the Trust Preferred Securities are being carried as a reduction of the liability for the Trust Preferred Securities with the value being amortized against the Company’s earnings over the 30-year term of the Trust Preferred Securities. At September 30, 2010, the unamortized amount carried as a reduction of the Company’s liability for the Trust Preferred Securities was \$44.8 million. If the Company were to repay the Trust Preferred Securities in full or in part at any time prior to their maturity date, the Company would have to recognize a commensurate amount as a reduction of earnings at that time.

On September 20, 2010 (the “Effective Date”), the Company entered into separate Warrant Exchange Agreement with each of its founders, namely Barry Zyskind, a director of the Company, Michael Karfunkel, and George Karfunkel. Michael Karfunkel and George Karfunkel are not directors, officers, employees or consultants of the Company. Under the terms of the Warrant Exchange Agreements, each individual agreed to surrender the warrant held by him issued by the Company on June 14, 2007 for the purchase of an aggregate of 1,350,000 of the Company’s common shares at \$10.00 per share, in exchange for 600,000 of the Company’s common shares. On the Effective Date, the warrants were accepted for exchange by the Company, and the Company issued the common shares to the individuals listed above. The shares are subject to a Lockup Agreement, as described below. The terms of the exchange of the warrants and issuance of the common shares were negotiated and unanimously approved by the Audit and Compensation Committees of the Company’s Board of Directors. In connection with their review, the Committees were advised by independent legal counsel and obtained an independent appraisal of the fair value of the warrants and the restricted shares.

On September 20, 2010, as a condition to the exchange for common shares, the Company entered into separate Lockup Agreements with each of the individuals listed above. Under the terms of the Lockup Agreements with Messrs. Zyskind, Karfunkel and Karfunkel, pursuant to which each individual agreed that for a period of 36 months following the Effective Date he will not, without the prior written consent of the Company, directly or indirectly, (A) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares acquired by the shareholder as a result of the warrant exchange, or (B) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the shares acquired in the warrant exchange.

Currency and Foreign Exchange



The Company's reporting currency is the U.S. dollar. The Company has exposure to foreign currency risk as certain portions of the Diversified Reinsurance and AmTrust Quota Share segment, including underwriting reinsurance exposures, collecting premiums and paying claims and other operating expenses in currencies other than the U.S. dollar and holding certain net assets in such currencies. The Company's most significant foreign currency exposure is to the British pound. The Company may, from time to time, experience losses resulting from fluctuations in the values of foreign currencies, which could have an effect on the Company's results of operations. During 2010, foreign exchange markets have experienced elevated levels of volatility due to ongoing and deepening structural governmental deficits in many countries around the world, which may continue in the near term based on consensus economic outlooks.

We measure monetary assets and liabilities denominated in foreign currencies at year end exchange rates, with the resulting foreign exchange gains and losses recognized in the Consolidated Statements of Operations. Revenues and expenses in foreign currencies are converted at average exchange rates during the year. The effect of the translation adjustments for foreign operations is included in accumulated other comprehensive income.

Net foreign exchange gains and (losses) amounted to \$1.2 million and \$(0.4) million during the three and nine months ended September 30, 2010 compared to gains of \$0.2 million and \$2.4 million during the same periods in 2009, respectively.

## Effects of Inflation

The effects of inflation are considered implicitly in pricing and estimating reserves for unpaid losses and loss expenses. The effects of inflation could cause the severity of claims to rise in the future. To the extent inflation causes these costs, particularly medical treatments and litigation costs, to increase above reserves established for these claims, the Company will be required to increase the reserve for losses and loss expenses with a corresponding reduction in its earnings in the period in which the deficiency is identified. The actual effects of inflation on the results of operations of the Company cannot be accurately known until claims are ultimately settled.

## Off-Balance Sheet Arrangements

As of September 30, 2010, we did not have any off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of Regulation S-K.

## Recent Accounting Pronouncements

See Item 1, Note 2 to the Consolidated Financial Statements for a discussion on recently issued accounting pronouncements not yet adopted.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

### Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk that we will incur losses in our investments due to adverse changes in market rates and prices. Market risk is directly influenced by the volatility and liquidity in the market in which the related underlying assets are invested. We believe that we are principally exposed to two types of market risk: changes in interest rates and changes in credit quality of issuers of investment securities and reinsurers.

### Interest Rate Risk

Interest rate risk is the risk that we may incur economic losses due to adverse changes in interest rates. The primary market risk to the investment portfolio is interest rate risk associated with investments in fixed maturity securities. Fluctuations in interest rates have a direct impact on the market valuation of these securities. At September 30, 2010, we had fixed maturity securities with a fair value of \$1,582.4 million that are subject to interest rate risk.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of September 30, 2010 to selected hypothetical changes in interest rates, and the associated impact on our stockholders' equity. Temporary changes in the fair value of our fixed maturity securities that are held as available-for-sale do impact the carrying value of these securities and are reported in our shareholders' equity as a component of other comprehensive income. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed maturity securities and on our shareholders' equity, as of September 30, 2010.

| Hypothetical Change in Interest Rates | Fair Value | Estimated Change in Fair Value (\$ in Millions) | Hypothetical Percentage Increase (Decrease) in Shareholders' Equity |
|---------------------------------------|------------|---|---|
| 200 basis point increase              | \$ 1,479.3 | \$ (103.1)                                      | (13.6)%   |

|                          |         |        |        |
|--------------------------|---------|--------|--------|
| 100 basis point increase | 1,534.2 | (48.2) | (6.4)% |
| No change                | 1,582.4 | —      | —%     |
| 100 basis point decrease | 1,620.5 | 38.1   | 5.0%   |
| 200 basis point decrease | 1,647.2 | 64.8   | 8.5%   |

The impact of a hypothetical change in interest rates on the \$168 million loan to related party, which carries an interest rate of one month LIBOR plus 90 basis points, of a fluctuation of 100 and 200 basis points in LIBOR would be an increase or decrease in our earnings and cash flows of \$1.7 million and \$3.4 million, respectively, on an annual basis, depending on the direction of the change in LIBOR, but it would not increase or decrease the carrying value of the loan.

#### Credit Risk

In providing reinsurance, we will have premiums receivable subject to credit risk of the ceding company. The Company has exposure to credit risk as it relates to its reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses. Reinsurance balances receivable from the Company's clients at September 30, 2010 were \$244.4 million, including balances currently due and accrued. The Company believes that credit risk related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process and monitoring of aged receivable balances. In addition, as the vast majority of its reinsurance agreements permit the Company the right to offset reinsurance balances receivable from clients against losses payable to them, the Company believes that the credit risk in this area is substantially reduced. Our credit risk results from our insureds' potential inability to meet their premium obligations.

We also are exposed to credit risk on our investment portfolio. Our credit risk is the potential loss in market value resulting from adverse change in the borrower's ability to repay its obligations. Our investment objectives are to preserve capital, generate investment income and maintain adequate liquidity for the payment of claims and debt service, if any. We seek to achieve these goals by investing in a diversified portfolio of securities. We manage credit risk through regular review and analysis of the creditworthiness of all investments and potential investments. If we retrocede business to other reinsurers, we will have reinsurance recoverables subject to credit risk. To mitigate the risk of these counterparties' nonpayment of amounts due, we will establish business and financial standards for reinsurer approval, incorporating ratings and outlook by major rating agencies and considering then-current market information.

Further, we are subject to the credit risk that AII and/or AmTrust will fail to perform their obligations to pay interest on and repay principal of amounts loaned to AII pursuant to its loan agreement with Maiden Bermuda, and to reimburse Maiden Bermuda for any assets or other collateral of Maiden that AmTrust's U.S. insurance company subsidiaries apply or retain, and income on those assets.

Given the recent turmoil in the financial markets, we believe that there continues to be the potential for significant write-downs of our, and other insurers', invested assets in future periods if the ongoing turmoil in the financial markets were to persist for an extended period of time.

The U.S. dollar is our reporting currency and the functional currency of all of our operating subsidiaries. We enter into insurance and reinsurance contracts where the premiums receivable and losses payable are denominated in currencies other than the U.S. dollar. Assets in non-U.S. currencies are generally converted into U.S. dollars at the time of receipt. When we incur a liability in a non-U.S. currency, we carry such liability on our books in the original currency. These liabilities are converted from the non-U.S. currency to U.S. dollars at the time of payment. As a result, we have an exposure to foreign currency risk resulting from fluctuations in exchange rates. During 2010, foreign exchange markets have experienced elevated levels of volatility due to ongoing and deepening structural governmental deficits in many countries around the world, which may continue in the near term based on consensus economic outlooks.

As of September 30, 2010, 0.5% of our total investments and cash and cash equivalents were denominated in currencies other than the U.S. dollar compared to 0.6% as of December 31, 2009. For the nine months ended September 30, 2010 and 2009, approximately 12.4% and 10.9%, respectively, of our business written was denominated in currencies other than the U.S. dollar.

Our foreign exchange gains and (losses) for the three and nine months ended September 30, 2010 were \$1.2 million and \$(0.4) million in 2010 compared to gains of \$0.2 million and \$2.4 million for the same periods in 2009, respectively.

#### Off-Balance Sheet Transactions

We have no off-balance sheet arrangements or transactions with unconsolidated, special purpose entities.

#### Item 4. Controls and Procedures

Our management, with the participation and under the supervision of our principal executive officer and principal financial officer, has evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and has concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective. During the most recent fiscal quarter, there were no changes in the Company's internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II - OTHER INFORMATION

## Item 6. Exhibits.

| Exhibit Number | Description  |
|----------------|--|
| 10.1           | Warrant Exchange Agreement by and between Michael Karfunkel and Maiden Holdings, Ltd. as of September 20, 2010.                  |
| 10.2           | Warrant Exchange Agreement by and between George Karfunkel and Maiden Holdings, Ltd. as of September 20, 2010.                   |
| 10.3           | Warrant Exchange Agreement by and between Barry Zyskind and Maiden Holdings, Ltd. as of September 20, 2010.                      |
| 10.4           | Lockup Agreement by and between Michael Karfunkel and Maiden Holdings, Ltd. as of September 20, 2010.                            |
| 10.5           | Lockup Agreement by and between George Karfunkel and Maiden Holdings, Ltd. as of September 20, 2010.                             |
| 10.6           | Lockup Agreement by and between Barry Zyskind and Maiden Holdings, Ltd. as of September 20, 2010.                                |
| 31.1           | Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended September 30, 2010. |
| 31.2           | Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended September 30, 2010. |
| 32.1           | Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended September 30, 2010.      |
| 32.2           | Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended September 30, 2010.      |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MAIDEN HOLDINGS, LTD.  
(Registrant)

Date: November 9, 2010

/s/ ARTURO M. RASCHBAUM  
Arturo M. Raschbaum  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ JOHN MARSHALECK  
John Marshaleck  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)