RAM HOLDINGS LTD.

2008 ANNUAL REPORT

RAM Holdings Ltd.

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Dear Fellow Shareholders:

The credit crisis continued through 2008 with unprecedented impact on financial services firms including our Company. We reported a net loss of $159.4 million for the year, a result of losses and loss adjustment expenses of $214.8 million related largely to our legacy US residential mortgage exposure.

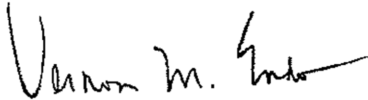
Our response to the continuing deterioration in our insured portfolio was significant. We commenced a strategy to reduce risk and conserve capital. Through April of 2009 we commuted $21.5B of our insured portfolio, which with portfolio paydowns, reduced our exposure to troubled sectors (primarily US residential mortgage, student loans and ABS/CMBS CDO exposure) from $8 billion at March 31, 2007 to approximately $1.1B currently. The low risk public finance segment now represents approximately 71.5% of our insured portfolio. To conserve capital we ceased writing new business in 2009 and we also exercised the put on our $50 million Blue Water Trust auction rate preferred facility in February 2009 and issued preferred stock which increased our statutory capital by a like amount.

Our plan going forward includes the following objectives;

- Managing our liquidity to meet all required obligations,
- Continue risk reduction by commuting business economically,
- Use our excess capital to deleverage our balance sheet and relieve payment obligations and
- Reduce operating expenses consistent with our business requirements.

While there have been recent improvements in the credit markets, we continue to be cautious as the recovery in housing is not expected to occur until 2010. The events of the past two years have been unprecedented and the timing of overall economic recovery remains uncertain. We are confident that the actions taken over the past eighteen months as well as our strategy going forward places the Company in the best position to emerge from this crisis.

Sincerely,



Vernon M. Endo
President and Chief Executive Officer

BUSINESS

RAM Holdings Ltd. ("RAM") is a Bermuda-based holding company that provides, through its operating subsidiary, RAM Reinsurance Ltd. ("RAM Re"), financial guaranty reinsurance for public finance and structured finance obligations that are insured by the primary monoline financial guaranty insurers, which we refer to as the "primaries" or "ceding companies". Both RAM and RAM Re were incorporated in Bermuda in January 1998 and all of our operations and business are located and transacted in Bermuda.

As a holding company, RAM does not independently generate cash flows and is dependent on dividends from RAM Re to pay principal and interest on its debt, to pay dividends on preference shares, and to meet any other obligations. Dividends from RAM Re are subject to regulatory restrictions.

Recent developments

The unprecedented deterioration in the U.S. housing market since the latter half of 2007 and the resulting lack of liquidity in the capital markets has had a substantial adverse impact on the financial guaranty industry generally and the Company in particular. Since AAA/Aaa ratings are critical to the primary companies' business model, rating agency downgrades of the seven historical primary companies to below AAA/Aaa, as well as investor concern regarding their capital adequacy, have severely limited the volume of new financial guaranty insurance business written in 2008 and 2009 to date. Currently, no primary insurers are rated AAA/Aaa with a stable outlook. Two primary companies have announced their intention to use existing subsidiaries to write new public finance business only and other potential new entrants have been announced. It is uncertain whether the new entrants will achieve ratings and franchise value required for market acceptance in the near term and whether the primary financial guaranty market will return to the level of business volume of prior years.

Our business model through 2008 was predicated upon providing our customers with capital credit from the rating agencies by means of our financial strength ratings, capital credit from regulators by means of trust accounts we established for the benefit of our customers regulated in the United States ("U.S.") and risk transfer. Our ratings have been downgraded from AAA to A+ by Standard & Poor's Ratings Services ("Standard and Poor's" or "S&P") and from Aa3 to Baa3 by Moody's Investors Service ("Moody's"). We requested withdrawal of our Moody's rating on March 17, 2009. As a result of these adverse developments referenced above and the downgrades of our ratings, we wrote only a modest amount of new financial guaranty reinsurance business in 2008 and have not written any new financial guaranty business to date in 2009.

Our business strategy

In response to the economic and rating events referenced above, we are continuing efforts that we began in 2008 to reduce the volatility of our insured portfolio and evaluate our business model:

- *Reducing our insured risk exposure*: We commuted our entire insured portfolio assumed from Syncora Guaranty Re Ltd. and MBIA, effective July 25, 2008 and November 30, 2008, respectively. As a result of these commutations, we reduced our exposure as follows:

  - Total 2005–2007 vintage US residential mortgage-backed securities ("RMBS") was reduced by $733.4 million par outstanding consisting of $609.2 million of second-lien RMBS (home equity lines of credit ("HELOCs") and Closed-End Seconds) and $124.2 million of first-lien RMBS. As a percent of outstanding par at December 31, 2007, the commuted amounts represent 35.4% of total 2005-2007 vintage US RMBS, 50.7% of second-lien RMBS, and 14.3% of first-lien RMBS, respectively.

  - Total collateralized debt obligations of asset-backed securities ("ABS CDO") par outstanding, predominantly 2005-2007 vintages, was reduced by $1,149.9 million. As a percent of outstanding par at December 31, 2007, the commuted amount represents 81.6% of total ABS CDOs.

We commuted our entire insured portfolio assumed from Ambac Assurance Corporation effective April 8, 2009. See Note 27, "Subsequent Events," in the notes to our consolidated financial statements. We are pursuing further commutations in cases where they can be negotiated at acceptable prices. In addition, we are pursuing legal actions against our ceding companies in cases where we dispute the validity of cessions made under our treaties or ceded losses.

- *Capital preservation and evaluation*: We reduced our new business growth in 2008 and have not written any business to date in 2009. We are evaluating our capital position in light of ongoing deterioration in the credit markets to determine whether we have sufficient capital in excess of that required to pay claims and other obligations under various stress scenarios to pursue opportunities to deleverage our capital structure by repurchasing our outstanding securities and, in the longer term, new business opportunities.

- *Reducing expenses*: In order to reduce our expenses, we have de-listed our common shares from trading on NASDAQ and de-registered our securities under the Securities Exchange Act of 1934. We estimate that these actions will reduce our expenses by at least $2 million per year, although the full effect of this cost savings is not expected until 2010. We also requested on March 17, 2009 that Moody's withdraw our financial strength rating, which will result in our no longer paying an annual fee to Moody's. We are also evaluating other measures to reduce expenses.

The Bermuda Stock Exchange is now the primary listing for RAM Holdings common shares. In addition, RAM Holdings common shares trade on the Pink Sheets under the symbol RAMR.

We are not seeking to write any new business in the near term, although we believe that if we are successful in the strategic measures set forth above, it will improve our position to potentially write new business in the future. We continue to evaluate our business model and may pursue a different set of strategies in the future. There can be no assurance that the strategies that have been implemented or that will be pursued in the future in connection with this evaluation will improve our business, financial condition, liquidity or results of operations or will not have a material adverse effect on the Company. Because we are not writing any new business, our Board may consider strategic options or determine to wind down the Company.

Selected Five Year Financial Data

The following financial information for the five years ended December 31, 2008, has been derived from RAM's Financial Statements.

	As of and for the Year Ended December 31,[1]				
	Consolidated 2008	**Consolidated 2007**	**Consolidated 2006**	**Combined 2005**	**Combined 2004**
	(Dollars in thousands, unless indicated otherwise)				
Statement of Operations Data:					
Gross written premiums	$ (11,214)	$ 98,501	$ 73,219	$ 63,163	$ 63,732
Net written premiums	(11,723)	97,749	71,073	63,163	63,732
Net earned premiums	68,577	51,005	44,292	39,036	32,375
Net change in fair value of credit derivatives	7,968	(171,806)	3,190	(157)	4,350
Net investment income	29,307	33,148	24,236	18,201	16,824
Net realized investment gains (losses)	(2,356)	(3,604)	(1,002)	(1,583)	536
Net unrealized gain on other financial instruments	7,754	35,330	—	—	—
Total revenues	111,250	(55,927)	70,716	55,497	54,085
Loss and loss adjustment expenses	214,828	48,026	(2,781)	7,204	3,579
Acquisition expenses	30,576	18,418	16,315	14,424	12,634
Operating expenses	16,930	13,373	13,379	11,531	11,032
Interest expense	8,375	8,375	2,750	2,750	2,106
Total expenses	270,709	88,192	29,663	35,909	29,351
Net (loss) income	$ (159,459)	$ (144,119)	$ 41,053	$ 19,588	$ 24,734
Earnings per share					
Basic	(5.85)	(5.29)	1.53	0.76	0.95
Diluted	(5.85)	(5.29)	1.53	0.75	0.95

	As of and for the Year Ended December 31,[1]				
	Consolidated 2008	Consolidated 2007	Consolidated 2006	Combined 2005	Combined 2004
	(*Dollars in thousands, unless indicated otherwise*)				
Balance Sheet Data:					
Investments and cash	$ 438,938	$ 717,037	$ 620,578	$ 475,978	$ 440,992
Deferred acquisition costs	74,795	87,304	73,838	66,220	58,653
Total assets	574,282	860,265	711,843	553,498	511,413
Reserve for losses and loss adjustment expense	95,794	63,798	14,506	16,595	15,493
Unearned premiums	158,594	239,957	192,641	163,769	139,632
Unsecured senior notes	40,000	40,000	40,000	40,000	40,000
Redeemable preference shares	75,000	75,000	75,000	—	—
Derivative liability	85,354	180,589	1,621	1,737	—
Total liabilities	484,924	607,953	332,576	230,842	199,908
Accumulated other comprehensive (loss) income	6,331	10,888	(5,497)	(4,540)	2,787
Shareholders' equity	89,358	252,313	379,267	322,656	311,505
Book value per share	$ 3.28	$ 9.26	$ 13.93	$ 12.47	$ 12.02

(1) Financial statement information included is on a consolidated basis for December 31, 2008, 2007 and 2006. Prior to that financial information is presented on a combined basis. See Note 1 in the audited financial statements.
Certain reclassifications have been made to the prior year's amounts to conform to the current year's presentation. See Note 2 to the audited financial statements.

	As of and for the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(*Dollars in thousands, unless indicated otherwise*)				
Financial Ratios (Based on U.S. GAAP Income Statement Data):					
Loss and loss adjustment expense ratio[1]	313.3%	94.2%	(6.3)%	18.5%	11.1%
Acquisition expense ratio[2]	44.6%	36.1%	36.8%	37.0%	39.0%
Operating expense ratio[3]	24.7%	26.2%	30.2%	29.5%	34.1%
Combined ratio[4]	382.6%	156.5%	60.7%	85.0%	84.2%
Non-GAAP Supplemental Data:					
Net par outstanding (in millions)	29,957	45,394	31,119	27,054	22,154
Net debt service outstanding (in millions)	50,731	71,911	50,944	41,535	34,957
U.S. Basis statutory capital and surplus (in millions)[5]	137.1	356.8	403.4	248.8	274.6

1 Calculated by dividing loss and loss adjustment expenses by net earned premiums
2 Calculated by dividing acquisition expenses by net earned premiums
3 Calculated by dividing operating expenses by net earned premiums
4 Loss, acquisition and operating expense ratio may not total combined ratio due to rounding
5 Our estimate of the sum of U.S. basis policyholder surplus and contingency reserve, as RAM Re files Bermuda statutory financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Overview

We are a Bermuda-based provider of financial guaranty reinsurance, conducting substantially all of our operations through our wholly owned subsidiary, RAM Re. Our financial strength ratings from the rating agencies affect our ability to compete in the market of providing reinsurance to the primary financial guaranty insurers.

We are rated A+ (with a negative outlook) by Standard &Poor's and Baa3 (outlook developing) by Moody's. We requested withdrawal of our Moody's rating on March 17, 2009. The downgrades of our ratings by S&P and Moody's in 2008 have had a material adverse affect on our ability to compete, on the terms of our reinsurance and on our financial results. Due to adverse developments in the financial markets and the financial guaranty industry generally beginning in the latter half of 2007, as well as the downgrades of our ratings, we wrote only a modest amount of business in 2008 and have written no new business in 2009. In addition, due to the above mentioned downgrades, certain of the primary financial guarantors that have previously ceded business to RAM, which we refer to as "ceding companies," have the right, after a cure period, to increase the ceding commission, as stipulated in the treaties, or terminate the treaties and recapture the business previously ceded to RAM Re whether written in financial guaranty or credit derivative form. To the extent policies are recaptured, RAM must forfeit to the ceding company an amount determined by formula under each treaty which generally consists of RAM's allocated share of the U.S. statutory unearned premium, net of the ceding commission paid by RAM to the ceding company (subject to a penalty amount in some cases), and loss reserves established with respect to the policies ceded, as applicable.

Results of Operations

Year Ended December 31, 2008 Compared to December 31, 2007 and Year Ended December 31, 2007 Compared to December 31, 2006

Net Income. Net (loss) income was $(159.5) million in 2008, $(144.1) million in 2007, and $41.1 million in 2006. The increase in net (loss) for the year ended December 31, 2008, compared to 2007, of $15.4 million or 10.7% is due primarily to the following factors:

- Loss and loss adjustment expenses of $214.8 million during 2008, an increase of $166.8 million over the $48.0 million for the comparable 2007 period primarily associated with the continued deterioration in the performance of reinsured RMBS. Included in the loss and loss adjustment expenses is a net loss on commutations of $45.9 million (see "Commutations" below).

- Unrealized gains on credit derivatives of $94.3 million for the year ended December 31, 2008, an increase of $272.1 million over the losses of $(177.8) million in 2007. The increase is a result of (i) a decrease in net unrealized losses of $203.3 million due to the adjustment for RAM's own non-performance risk under FAS 157, (ii) a reduction in unrealized losses in 2008 of $232.0 million due to the commutations with XLFA and MBIA, offset by (iii) an increase in unrealized losses due to the continuing deterioration in subprime mortgage assets and the corresponding widening credit spreads in the market. The unrealized gains on credit derivatives in 2008 are reduced by the realized losses of $86.3 million primarily relating to the payments made to XLFA and MBIA on commutations (see "Commutations" below).

- The decrease in net income of $185.2 million in 2007 relative to 2006 is primarily the result of (i) a year-over-year increase of $50.8 million in losses and loss adjustment expenses, (ii) $177.8 million in losses on credit derivatives in 2007 due to widening credit spreads and the deterioration of underlying collateral, compared to immaterial unrealized losses during 2006, offset by (iii) a $35.3 million unrealized gain in 2007 on the fair value of the put option on the Company's preference share soft capital facility in 2007 compared to $Nil in 2006, and (iv) an $8.9 million increase in investment income in 2007 compared to 2006.

- Commutations:

  <u>MBIA commutation</u>:

  Effective November 30, 2008, RAM Re entered into a Commutation Agreement with MBIA Insurance Corporation and its affiliates (“MBIA”) to commute its entire portfolio of business previously assumed from MBIA back to MBIA. As consideration for the commutation RAM Re paid MBIA $156.5 million. The commutation reduced the outstanding par amount of RAM’s insured portfolio by $10.6 billion, including $439.3 million of collateralized debt obligations of asset-backed securities (ABS CDOs) (all structured as credit derivatives), $2.4 billion of collateralized debt obligations of commercial mortgage-backed securities (CMBS CDOs) and $453.0 million of 2005 - 2008 vintage U.S. RMBS.

  The effect of the MBIA commutation on the Company’s results of operations was to (i) reduce gross written premiums and unearned premiums by $36.4 million, resulting in no impact on earned premiums (ii) increase realized losses on credit derivatives by $25.5 million and decrease unrealized losses on credit derivatives by $136.1 million, and (iii) increase loss and loss adjustment expenses by a loss of $61.4 million, resulting in an overall gain to net income at the time of commutation of $49.3 million.

  <u>XLFA commutation</u>:

  On July 25, 2008, RAM Re entered into a Commutation Agreement with Syncora Guaranty Re (formerly XL Financial Assurance Ltd.) (“XLFA”), whereby RAM Re transferred all business previously ceded to RAM Re by XLFA back to XLFA and each of RAM Re and XLFA released each other from claims under the reinsurance agreements. As consideration for the Commutation Agreement, RAM Re paid $94.4 million which comprised the repayment of $8.6 million of unearned premiums, net of ceding commission, $16.1 million towards estimated loss reserves on RMBS and $69.7 million towards unrealized losses on ABS CDOs. The transaction reduced the par amount of RAM’s insured portfolio by $3.5 billion of which $711 million related to 2005 - 2007 vintage ABS CDOs (all structured as credit derivatives) and $280 million of 2005 - 2007 vintage RMBS.

  The effect of the XLFA commutation on the Company’s results of operations was to (i) reduce gross written premiums by $11.4 million, (ii) increase net earned premiums by $1.1 million, (iii) increase net change in fair value of credit derivatives by a gain of $26.0 million, (iv) reduce loss and loss adjustment expenses by a gain of $15.5 million and (v) increase acquisition expenses by $0.3 million, resulting in an overall gain to net income of $42.3 million.

  <u>Other commutations</u>:

  During the second quarter of 2008, the Company commuted $1 billion in par outstanding on policies with two primary insurers. All the Company’s obligations with respect to the commuted policies were terminated on commutation. The effect of these commutations on the Company’s income statement was to reduce (i) net earned premiums by $1.8 million and (ii) acquisition expenses by $0.6 million, giving an overall reduction to net income of $1.2 million. The net income effect was the result of paying back the primary insurers statutory unearned premiums, net of ceding commissions, which earn on a slower basis than GAAP premium earnings

  In December 2008 RAM Re commuted a further $158.3 million in par outstanding on two policies with another primary insurer. One policy was a partial commutation of $41.8 million par outstanding on a 2007 subprime RMBS whereas RAM Re’s total obligations on the second policy were terminated fully. The Commutation payment of $3.1 million reduced the total loss reserve accordingly.

Certain reclassifications have been made to the prior period amounts to conform to the current period's presentation.

Credit Derivatives presentation:

As at January 1, 2008, RAM implemented a change in the presentation of revenues, expenses and balance sheet items relating to financial guaranty contracts that the Company reinsures in the form of credit default swap ("CDS") contracts. This reclassification did not change the Company's net income/(loss), comprehensive income/(loss), earnings per share or shareholders' equity. This reclassification was adopted after agreement between members of the Association of Financial Guaranty insurers ("AFGI") and discussions with the Securities and Exchange Commission, to increase comparability of the Company's financial statements with other financial guaranty companies that have credit derivative contracts.

CDS contract revenue has been reclassified in the consolidated statement of operations (see above derivative instruments accounting policy note for further details). Amounts relating to CDS contracts within "net earned premiums", "acquisition expenses" (or ceding commissions) and "loss and loss adjustment expenses" have been reclassified to "realized (losses) gains and other settlements on credit derivatives". The Company has reclassified all CDS-related balances in the consolidated balance sheet included in "unearned premiums" to "derivatives liabilities". The balances on the Company's balance sheet as of December 31, 2007, and related statements of operations and comprehensive income and cash flows for the years ended December 31, 2007 and 2006, affected by the reclassifications are as follows:

Consolidated Balance Sheets	**As of December 31, 2007**	
Liabilities:	**As previously reported**	**As reclassified**
Unearned premiums	$ 242,829,191	$ 239,957,383
Derivative liabilities	177,717,110	180,588,918
Total liabilities	607,953,061	607,953,061

Consolidated Statement of Operations	**Year Ended December 31, 2007**		**Year Ended December 31, 2006**	
	As previously reported	**As reclassified**	**As previously reported**	**As reclassified**
Gross premiums written	$ 108,749,672	$ 98,500,663	$ 77,631,605	$ 73,218,339
Change in unearned premiums	(47,935,507)	(46,744,694)	(26,650,681)	(26,780,438)
Net earned premiums	60,062,637	51,004,441	48,835,265	44,292,242
Realized gains and other settlements	—	5,971,020	—	3,203,910
Unrealized losses on credit derivatives	(177,777,141)	(177,777,141)	(14,426)	(14,426)
Acquisition expenses	21,504,966	18,417,790	17,654,466	16,315,353
Net income	(144,119,582)	(144,119,582)	41,052,840	41,052,840

Statement of Consolidated Cash Flows	**Year Ended December 31, 2007**		**Year Ended December 31, 2006**	
Cash flows from operating activities:	**As previously reported**	**As reclassified**	**As previously reported**	**As reclassified**
Unearned premiums	$ 48,506,826	$ 47,316,014	$ 28,742,035	$ 28,871,792
Derivative liability	—	1,190,812	—	(129,757)
Net cash flows provided by operating activities	84,500,588	84,500,588	57,096,137	57,096,137

Gross Written Premiums. Gross written premiums were $(11.2) million in 2008, compared to $98.5 million for 2007. Excluding the effect of the commutations during the year, gross premiums written for 2008 were $46.8 million, a decrease of $51.7 million or 52.5% in comparison to the 2007 period. Gross written premiums were $98.5 million in 2007, an increase of 34.6% from $73.2 million of gross written premiums in 2006. The decrease in gross written premiums in 2008 relative to 2007 was a result of a number of factors arising out of the effect of the subprime and credit crisis on the financial guaranty industry as discussed in the "Overview" above, along with the reduction in treaties the Company had in place during 2008 as compared to 2007. The increase in gross written premiums in 2007 relative to 2006 is the combined result of two new treaties with two of our

primaries, which contributed $26.1 million for the year ended December 31, 2007, along with an overall increase in market volume in 2007 over prior year.

Public finance gross written premiums, excluding the premiums returned on commutations, were $24.0 million in 2008, 67.2% less than in 2007 when public finance written premiums were $73.1 million. Public finance gross written premiums increased by 51.0% in 2007, from $48.4 million in 2006. The decrease in public finance gross premiums written in 2008 is a result of a reduction in the number of ceding companies we assume business from, a decline in the cessions from our ceding companies due to lower insured penetration of the public finance market and ceding companies ceding minimum amounts under the treaties. The increase in public finance gross premiums written in 2007 as compared to 2006 is largely due to the new treaties in 2007, along with increases within our existing treaties.

Structured finance gross written premiums, excluding the premiums returned on commutations, were $22.8 million in 2008, a decrease of 10.2% from $25.4 million in 2007. Structured finance gross written premiums in 2007 increased by 2.4% from $24.8 million in 2006. Structured finance written premiums declined in 2008 over 2007, largely the result of the commutation of MBIA and XLFA during the year, which reduced the quarterly installment premiums written. Structured finance written premiums grew in 2007 over 2006 as a result of the new treaties along with increased cessions from our other primaries for 2007 over prior years.

The following table sets forth the amounts of gross written premiums by product line:

	For the Year Ended December 31,		
	2008	2007	2006
		(*Dollars in millions*)	
Public Finance	$ 24.0	$ 73.1	$ 48.4
Structured Finance	22.8	25.4	24.8
Commuted	(58.0)	—	—
Total gross premiums written	$ (11.2)	$ 98.5	$ 73.2

Gross written premiums are highly dependent upon the amount of business ceded by the primary insurers which, in turn, is related to the overall volume of business they underwrite, and the size and type of obligations they insure. In general, a growing volume of insured business, a stable or growing usage of reinsurance and higher premium rates will benefit our gross written premiums. During 2008, RAM Re renewed two treaties that were effective in the first quarter with AAA-rated ceding companies, which were subsequently downgraded by Moody's (but not S&P) to the Aa-level. The remaining treaties that were in effect in 2007 were cancelled or expired in 2008. New business written for 2008 was minimal as a result of a number of factors arising out of the effect of the subprime and credit crisis on the financial guaranty industry as discussed in the "Overview" above. During 2007, the aggregate gross premiums written ceded by our three largest customers was slightly below the level of premiums written in 2006. While these customers ceded premiums written slightly below prior years, our other primaries with new treaties ceded the remaining increase in premiums written in 2007 over 2006. The average premium rates for public finance business assumed by RAM Re in 2008 were above the average rates of 2007, and the average premium rates for public finance business assumed by RAM Re in 2007 had been comparable to those of 2006. Structured finance business assumed by RAM Re in 2008 had average premium rates above those of 2007, while 2007 average premium rates for structured finance business assumed by RAM Re were lower than those of 2006. Premium rates reflect market conditions, the type and mix of business ceded by RAM Re's customers and the credit quality of such business so that an increase or decrease in average premium rates is the result of a several factors.

Net Written Premiums. Net premiums written were $(11.7) million in 2008, compared to $97.7 million in 2007. Net written premiums in 2008 reflect ceded premiums of $0.5 million compared to $0.8 million in 2007. Excluding the effect of the commutations during the year, net premiums written for 2008 were $46.3 million, a decrease of $51.4 million or 52.6% in comparison to the 2007 period. Net premiums written were $97.7 million in 2007, a 37.4% increase over the 2006 level of $71.1 million. Net written premiums in 2006 reflected ceded premiums of $2.1 million, the first such activity for RAM Re. During 2008, we ceded premiums of $1.0 million pursuant to an agreement under which RAM retrocedes a portion of business in excess of specified levels of par exposure that we have assumed from a single issuer, additionally $(0.5) million of premiums previously retroceded were returned to RAM relating to underlying policies which were commuted by RAM during the year. Our

purchase of reinsurance protection does not relieve us of the full liability that we assumed from our ceding companies. In the event that a reinsurer of RAM is unable to meet its obligation under a retrocession agreement, we would continue to be liable to ceding companies in the full amount of their cession to RAM. RAM currently has one retrocession agreement in place with a company rated Ba1 by Moody's and BBB- by S&P (a "AA" rated financial guaranty company at the time of writing the agreement). This agreement has been terminated on a "run-off" basis effective December 31, 2008. As a result of the downgrade of the retrocessionaire, the Company has the right to terminate the agreement on a "cutoff" basis and recapture all the policies previously ceded. The Company has not exercised this right as of April 13, 2009.

Net Earned Premiums. Net earned premiums were $68.6 million in 2008, 34.5% above 2007 earned premiums of $51.0 million. In 2007, earned premiums increased by 15.1% from $44.3 million of earned premiums in 2006. The increase in 2008 as compared to 2007 is primarily due to a significant increase in refundings in 2008. Refundings for the year ended December 31, 2008 were $23.7 million, compared to $5.7 million for the comparable 2007 period. Accelerated earnings from refundings were $6.3 million in 2006. The refundings primarily resulted from issuers terminating certain variable rate demand bonds and auction rate securities and issuing fixed rate bonds as interest rates on insured bonds increased due to deteriorating credit of the insurers. Refundings represent an acceleration of earned premiums that occurs when an obligation that we have reinsured is retired or defeased prior to its scheduled maturity which, in turn, results in the recognition of any remaining unearned premiums and deferred policy acquisition costs associated with the obligation. The significant increases in upfront written premiums from the public finance business in past years, and growth in installment premiums from the structured finance business assumed in prior years contributed to the increase in 2007 as compared to 2006.

The following table sets forth net earned premiums by product line:

	For the Year Ended December 31,		
	2008	2007	2006
		(Dollars in millions)	
Public Finance	$ 44.6	$ 27.5	$ 25.8
Structured Finance	24.0	23.5	18.5
Total net earned premiums	$ 68.6	$ 51.0	$ 44.3

Net Change in Fair Value of Credit Derivatives: The net change in fair value of credit derivatives consists of the following related to our credit derivative policies:

	For the Year Ended December 31,		
	2008	2007	2006
Change in fair value of credit derivatives:			
Credit derivative premiums received and receivable	$ 12.4	$ 9.1	$ 4.5
Acquisition expenses on credit derivatives	(3.5)	(3.1)	(1.3)
Losses and loss adjustment expenses	(95.2)	—	—
Realized (losses)/gains and other settlements	(86.3)	6.0	3.2
Unrealized gains (losses)	94.3	(177.8)	—
Net change in fair value of credit derivatives	$ 8.0	$ (171.8)	$ 3.2

Net change in fair value of credit derivatives was $8.0 million in 2008 compared to $(171.8) million in 2007 and $3.2 million in 2006. The movement in the net change in fair value of credit derivatives is driven by the following factors:

- Realized (losses) gains and other settlements consists of credit derivative premiums received and receivable, which represents premium income relating to credit default swap policies (net of acquisition expenses) and loss and loss adjustment expenses on those policies. Included within realized gains and other settlements were premiums received and receivable of $12.4 million in 2008, an increase of 36.3% above 2007 premiums of $9.1 million. In 2007, premiums received and receivable increased by 102.2% from the $4.5 million in 2006. The growth in premiums received and receivable in 2008 over 2007 and 2007 over 2006 is due to the new treaties written in 2007 along with increased cessions from our primaries for 2007.

Also included within realized gains and other settlements in 2008 were losses and loss expenses of $95.2 million compared to $Nil for the comparable 2007 and 2006 periods. The 2008 amount included $69.7 million relating to the XLFA credit derivative policies and $25.5 million relating to MBIA credit derivative policies which were commuted during the year. The total $95.2 million realized losses on commutation of credit derivatives policies is offset by a reduction in unrealized losses on credit derivative policies on commutations of $136.1 million and $95.9 million, relating to MBIA and XLFA, respectively. The overall net gain on commutations relating to credit derivative policies, included within the net change in fair value of credit derivatives was $136.8 million.

- The net unrealized gains for the year ended December 31, 2008 were $94.3 million, a change of $272.1 million over the unrealized losses of $177.8 million in 2007. The unrealized gains in 2008 include reduction of previously recorded unrealized losses of $136.1 million and $95.9 million on commutations with MBIA and XLFA, respectively, as discussed above, offset by increased unrealized losses on credit derivative policies during the period. This increase in unrealized losses is primarily due to the continuing deterioration of underlying collateral on these policies and the corresponding widening credit spreads in the market, offset by the adjustment for RAM's own non-performance risk in accordance with FAS 157 which was adopted at January 1, 2008. RAM is required to comply with FAS 157, which requires the Company to adjust for its own non-performance risk when measuring the fair value of its derivative liabilities. The effect of the change in RAM Re's risk of non-performance can result in large variations in the credit derivative liability quarter- on-quarter, which is based on how the market perceives RAM Re's creditworthiness. The effect of the FAS 157 adjustment for RAM's creditworthiness resulted in a gain of $203.3 million to the net mark-to-market charge during the year ended December 31, 2008.

  Net unrealized losses on credit derivative contracts were $177.8 million in 2007, compared to immaterial unrealized losses in 2006. The significant increase in net unrealized losses on derivative financial instruments reported during 2007 was primarily due to the deterioration in subprime mortgage assets and the corresponding widening credit spreads in the market. The Company also monitors credit impairments. Credit impairments on our credit default swaps are a non GAAP metric which management believes is useful to analysts, rating agencies and investors to review the results of our entire portfolio of policies. Management considers our credit derivative policies as a normal extension of our financial guarantee business and reinsurance in substance. The Company measures and monitors credit impairments which are expected to be paid out over the term of the credit derivative policies. As at December 31, 2008 and December 31, 2007, the Company estimates credit impairment reserves amounting to $6.0 million and $44.4 million, respectively. The decline in the credit impairments is primarily due to the commutation of ABS CDO's with credit impairments during the year.

In compliance with the requirements of FAS 157, the Company considered its own non-performance risk when measuring the fair value of its derivative liability. The effect of applying this requirement in 2008 was a reduction in the Company's derivative liability of approximately $203.3 million at December 31, 2008 (see Notes 2 and 4 to the audited financial statements).

The unrealized gain or loss on credit derivatives will change based on the underlying assumptions and information used in the models and may not be indicative of ultimate claims. The credit derivative contracts we reinsure require us to make payments upon the occurrence of certain defined credit events relating to an underlying obligation. Credit derivative exposures are substantially similar to financial guaranty insurance contracts and provide for credit protection against payment default. We view our assumed reinsurance of credit derivative policies to be an extension of normal financial guaranty business and typically intend to hold derivative financial instruments to maturity, so that in the absence of an actual loss, the changes in fair value estimates will net to zero over the term of the assumed business. Changes in the fair value of our derivative contracts do not reflect expected or actual claims or credit losses, unless otherwise identified as impairments, and have no impact on the Company's claims-paying resources, rating agency capital or regulatory capital positions.

Net Investment Income. Net investment income of $29.3 million in 2008 was 11.5% below the $33.1 million recorded in 2007, while the 2007 level represented a 36.8% increase from the $24.2 million recorded in 2006. During 2008, net investment income decreased relative to 2007 primarily as a result of the reduction in the investment portfolio due to payments on commutations with XLFA and MBIA totaling $250.9 million, along with a decrease in the book yield on invested assets. During 2007, net investment income increased relative to 2006 primarily as a result of growth in the portfolio due to our issuance of $75 million of preference shares on December 14, 2006 and net cash flows from operations. A secondary element of investment income growth in 2007 was our ability to invest at higher yields than were available in 2006. The investment portfolio is comprised predominantly of taxable securities, and had an average yield of 4.5% at December 31, 2008, compared with 5.0% and 4.9% at December 31, 2007 and 2006, respectively.

Net Realized Investment Losses. Net realized investment losses were $2.4 million in 2008, $3.6 million in 2007 and $1.0 million in 2006. During 2008, other than temporary impairments of $10.5 million were recognized. The Company recognized an additional $2.2 million during 2008, $3.6 million during 2007 and $Nil in 2006, relating to an investment with subprime exposure. The fair value of this investment was $0.2 million at December 31, 2008. The Company had a second investment with subprime exposure on which it realized a $0.1 million loss in 2008 and the fair value of this investment at December 31, 2008 was $0.2 million. Two other securities have been other than temporarily impaired during 2008. These were corporate bonds that realized a total of $8.2 million of losses and the combined fair value of these investments at December 31, 2008 was $0.9 million. These impairments were offset by net gains in 2008 of $8.1 million primarily a result of gains realized on sales of securities for commutation payments. The balance of the net losses realized in 2007 and 2006 were generally the result of modest repositioning within the portfolio achieved by selling certain securities and purchasing others believed to provide improved investment characteristics.

Net Unrealized Gains(Losses) on Other Financial Instruments. Net unrealized gains on other financial instruments were $7.8 million in 2008 compared to $35.3 million in 2007 and $Nil in 2006. The unrealized gain on other financial instruments relates to a $50.0 million put option the Company has in place with respect to its preference share soft capital facility. The put option allows the Company to issues preference shares to a trust that held the $50.0 million in investments in exchange for the proceeds from the liquidation of the investments held in the trust. The unrealized gains of $7.8 million and $35.3 million in 2008 and 2007, respectively, relates to the increased value of the soft capital facility to the Company compared to the estimated current cost of similar capital that could be obtained in the current market. Subsequent to year end, on February 17, 2009, the put option was exercised.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses in 2008 were $214.8 million compared to $48.0 million in 2007. The increase in loss and loss adjustment expense for 2008 is mainly driven by:

- Net loss on commutations with XLFA and MBIA in 2008 of $45.9 million, including $121.8 million paid on commutations (see “Commutations” above).

- The continued deterioration of and the establishment of reserves relating to the RMBS deals, primarily those underwritten with vintages between 2005-2007. Case-basis loss reserves directly relating to subprime mortgages, Alt-A, Closed-End Seconds and Home Equity Lines of Credit (HELOCs) account for $26.4 million of the increase in loss and loss adjustment expenses.

- We established a case reserve of $25.0 million for a life insurance reserve securitization transaction, which we refer to as a pooled actuarial insurance policy securitization – Reg XXX. Our total par outstanding exposure on this transaction is $108 million. Monies raised through the issuance of the insured notes were used to support present and future U.S. statutory reserve requirements related to the life insurance contracts. The monies raised were invested at inception of the transaction in certain investment accounts, which have incurred substantial mark-to-market losses since mid-year 2007, principally as a result of their exposure to subprime and Alt-A RMBS transactions. Credit losses have been realized on the securities in the investment accounts and significant additional credit losses are expected to occur. Performance of the underlying block of life insurance business thus far generally has been in accordance with expectations, and cash flows

from the investment accounts and the life insurance contracts is currently sufficient to cover interest payments due on the notes we reinsure. Based on the analysis performed by the primary of estimates of future investment performance, projected credit impairments on the invested assets and performance of the block of life insurance contracts, we established a case reserve of $25.0 million for this transaction representing our proportionate share of the case reserve established by the primary.

- The above increases are offset by a decrease in unallocated loss reserve of $19.3 million. During 2008 and 2007, an additional $10.9 million and $15.6 million, respectively, of unallocated loss reserves were established relating to RMBS losses. During 2008, this was reduced by transfers to case reserves of $17.6 million relating to the RMBS losses along with a reduction due to the decline in our outstanding par exposure primarily as a result of the commutations during the year. Additionally, we gave credit of $28.8 million in our case reserves for the benefit of expected recoveries in 18 RMBS transactions resulting from required repurchases by the originators due to contractual breaches of representations and warranties in the RMBS securitization agreements. The $28.8 million of credit given matches the credit reported to us by the primaries. The primaries performed detailed examinations of sampled RMBS loan files to determine whether the loans conformed to the representation and warranties made by the originators. The sampled loans were either in later stages of delinquency or had been charged off. Those loans that showed a material breach of representations and warranties are in the process of being put-back to the originator for repurchase. All of the primaries have stated that they intend to vigorously pursue enforcement of the contractual repurchase obligations of the originators. We view the obligation to repurchase as a standard provision of RMBS securitizations that has been enforced for many years. Thus we view the inclusion of remediation credit taken by the primaries in our reserves to be probable and estimable and have assumed our proportionate share of the credit given by the primaries when establishing our case reserves.

At December 31, 2008, we carried total reserves for losses and loss adjustment expenses of $95.8 million, of which $81.8 million were case reserves and the remaining $14.0 million related to unallocated loss reserves.

Losses and loss adjustment expenses in 2007 were $48.0 million compared to $(2.8) million in 2006. The increase in loss and loss adjustment expense for 2007 as compared to 2006 is mainly driven by the establishment of reserves relating to the RMBS deals, primarily those underwritten with vintages between 2005-2007. Case-basis loss reserves directly relating to subprime mortgages, Alt-A, Closed-End Seconds and HELOCs account for $26.4 million of the increase in loss and loss adjustment expenses. Additionally, the unallocated loss reserve increased by $21.9 million, of which $15.6 million relates to future RMBS losses that are probable to default but cannot be allocated directly to a specific policy. The remaining increase in unallocated loss reserves was directly related to the increase in business written in the 2007 year. Loss activity that results in net negative incurred losses during a full year period, as occurred during 2006, is atypical although recoveries on previously paid losses are a normal part of our business. Loss and loss adjustment expenses are generally affected by changes in the mix, size, and credit quality of our portfolio, as well as specific credit events within reinsured obligations and trends in the reserving practices of our ceding insurers.

The following table sets forth the components of incurred losses:

	For the Year Ended December 31,		
	2008	2007	2006
		(Dollars in millions)	
Paid losses[1]	$ 182.8	$ (0.4)	$ (1.1)
Change in case-basis reserves	51.3	27.4	(3.3)
Change in unallocated reserves	(19.3)	21.9	1.2
Change in recoverables	—	(0.9)	0.4
Total incurred losses	$ 214.8	$ 48.0	$ (2.8)

(1) Includes $121.8 million paid in 2008 towards commutations with XLFA and MBIA (see “Commutations” above).

Since the latter half of 2007, there has been considerable stress in the US residential mortgage market, particularly related to mortgage loans originated during 2005, 2006 and 2007. RAM Re is exposed to US residential mortgages through our RMBS, and indirectly through our guarantees of CDOs backed by RMBS. CDOs are securities backed by portfolios of assets that may include a combination of corporate bonds, loans, RMBS, asset-backed securities, tranches of other collateralized debt obligations or credit derivatives representing any of the former. CDOs backed by significant amounts of RMBS are known as "ABS CDOs". As of December 31, 2008, we have established $48.2 million of case reserves relating to specific 2005-2007 RMBS exposures and an additional $26.5 million of unallocated loss reserves relating to RMBS losses that are probable but can not be specifically identified, less $17.6 million of unallocated reserves relating to RMBS transferred to case reserves. Additionally, the Company monitors credit impairments relating to ABS CDOs.

Acquisition Expenses. Acquisition expenses were $30.6 million in 2008, $18.4 million in 2007, and $16.3 million in 2006. The increase in acquisition costs in 2008 over 2007 is due to additional ceding commission costs relating to the Company's downgrade and the write-off of unrecoverable deferred acquisition costs. Excluding such unusual items, the changes in acquisition costs period over period are directly related to the changes in earned premiums. The ratio of acquisition costs to earned premiums was 44.6% in 2008, up from 36.1% in 2007, which had decreased relative to the 2006 ratio of 36.8%. The increase in the ratio of acquisition costs to earned premiums in 2008 as compared to 2007 is primarily due to (i) expensing of the additional ceding commissions incurred on the Company's downgrade of $1.4 million and (ii) the write-off of deferred acquisition costs of $2.0 million considered unrecoverable. The decline in the ratio of acquisition costs to earned premiums in 2007 as compared to 2006 reflected the combination of improvements (decreases) in ceding commissions paid to primary insurers and a lesser share of direct expenses allocated to the acquisition of business as a general result of the company maturation as supported by our analysis of expenses that qualify for deferral.

Operating Expenses. General or operating expenses were $16.9 million in 2008, 26.1% higher than the $13.4 million in 2007. Operating expenses in 2007 were comparable to the $13.4 million in 2006. The increase in operating expenses for 2008 as compared to 2007 was due to increased costs associated with the renewal of our Directors and Officers ("D&O") insurance coverage, a reduction in the amount of expenses deferred corresponding to the decline in new business written, along with an increase in audit fees in the current year. These increases are offset partially by the reduction in staff costs due to a decline in bonuses in 2008. Operating expenses in 2007 included $0.5 million of non-recurring secondary offering costs, and 2006 included $2.3 million in non-recurring costs related to the IPO. Without these non-recurring costs, operating expenses increased by 16.2% in 2007 over 2006, primarily reflecting the ongoing costs of being a public company.

Interest Expense. Interest expense was $8.4 million in both 2008 and 2007 and $2.8 million in 2006. Preference share dividends, classified as interest expense, of $5.6 million were paid during both 2008 and 2007. The preference shares were issued on December 14, 2006 and therefore no dividends were paid in 2006. Dividends on the preference shares are payable semi-annually on June 15 and December 15 each year if declared by the Board of Directors. Interest expense also includes interest expense on the Company's long term debt. Interest on long term debt was $2.8 million for all years reported.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The consolidated financial statements of RAM Holdings Ltd. were prepared by management, who are responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Company, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent registered public accounting firm and submits its recommendation to the Board of Directors for approval.

The Audit Committee meets with management, the independent registered public accounting firm and the outside firm engaged to perform internal audit functions for the Company; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent registered public accounting firm and the outside firm engaged to perform internal audit functions for the Company meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits; the adequacy of the Company's internal control; the quality of its financial reporting; and the safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by an independent registered public accounting firm, PricewaterhouseCoopers, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. The Company believes that all representations made to our independent registered public accounting firm during their audits were valid and appropriate.

Management's Report on Internal Control Over Financial Reporting

The management of RAM Holdings Ltd. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2008, management has evaluated the effectiveness of the Company's internal control over financial reporting based on the criteria established in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we have concluded that RAM Holdings Ltd.'s internal control over financial reporting was effective as of December 31, 2008.

/s/ Vernon M. Endo	/s/ Edward U. Gilpin
Vernon M. Endo	Edward U. Gilpin
President and Chief Executive Officer	Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of RAM Holdings Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive (loss) income, shareholders' equity and retained (deficit) earnings and of cash flows present fairly, in all material respects, the financial position of RAM Holdings Ltd. and its subsidiary (the "Company") at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the consolidated financial statements, the Company has adopted SFAS No. 157, "Fair Value Measurements" in 2008. As discussed in Note 1 to the consolidated financial statements, the Company has not renewed its reinsurance treaties with any of the primary financial guaranty insurers in 2009 or written any new business to date in 2009.

/s/ PricewaterhouseCoopers
Hamilton, Bermuda

April 15, 2009

RAM Holdings Ltd.
Consolidated Balance Sheets
December 31, 2008 and 2007

	2008	2007
ASSETS		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of $415,558,752 and $685,644,954)	$ 421,890,248	$ 696,532,780
Cash and cash equivalents	8,763,062	12,326,313
Restricted cash	8,284,459	8,177,757
Accrued investment income	4,437,636	6,464,873
Premiums receivable	1,115,413	3,644,620
Recoverables on paid losses	1,796,842	1,807,941
Deferred policy acquisition costs	74,795,257	87,304,376
Prepaid reinsurance premiums	1,599,174	2,662,673
Other receivables	4,000,000	—
Deferred expenses	1,588,217	1,752,856
Prepaid expenses	377,372	195,291
Financial instruments at fair value	43,083,370	35,330,000
Other assets	2,550,875	4,065,979
Total assets	**$ 574,281,925**	**$ 860,265,459**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Losses and loss expense reserve	$ 95,794,254	$ 63,797,744
Unearned premiums	158,593,738	239,957,383
Reinsurance balances payable	24,621,111	539,394
Accounts payable and accrued liabilities	2,493,959	3,463,366
Accrued interest payable	693,151	693,151
Derivative liabilities	85,353,670	180,588,918
Other liabilities	2,374,153	3,913,105
Long-term debt	40,000,000	40,000,000
Redeemable preference shares ($1,000 redemption value and $0.10 par value; authorized shares – 75,000; issued and outstanding shares – 75,000 at December 31, 2008 and 2007)	75,000,000	75,000,000
Total liabilities	**484,924,036**	**607,953,061**
Commitments and contingencies (Note 18)		
Shareholders' equity:		
Common shares ($0.10 par value; authorized shares – 90,000,000; issued and outstanding shares – 27,251,595 shares at December 31, 2008 and 27,238,976 shares at December 31, 2007)	2,725,160	2,723,898
Additional paid-in capital	230,438,128	229,378,418
Accumulated other comprehensive income	6,331,496	10,887,826
Retained earnings	(150,136,895)	9,322,256
Total shareholders' equity	**89,357,889**	**252,312,398**
Total liabilities and shareholders' equity	**$ 574,281,925**	**$ 860,265,459**

See accompanying Notes to Consolidated Financial Statements.

RAM Holdings Ltd.
Consolidated Statements of Operations

	Years Ended December 31,		
	2008	**2007**	**2006**
Revenues:			
Gross premiums written **(Note 16)**	$ (11,214,227)	$ 98,500,663	$ 73,218,339
Ceded premiums	(509,190)	(751,528)	(2,145,659)
Net written premiums	(11,723,417)	97,749,135	71,072,680
Change in unearned premiums	80,300,144	(46,744,694)	(26,780,438)
Net premiums earned	$ 68,576,727	$ 51,004,441	$ 44,292,242
Change in fair value of credit derivatives:			
Realized (losses) gains and other settlements	(86,319,869)	5,971,020	3,203,910
Unrealized gains/(losses)	94,288,456	(177,777,141)	(14,426)
Net change in fair value of credit derivatives	7,968,587	(171,806,121)	3,189,484
Net investment income	29,306,749	33,148,540	24,236,102
Net realized losses on investments	(2,355,915)	(3,604,220)	(1,002,055)
Net unrealized gain on other financial instruments	7,753,370	35,330,000	—
Total revenues	**111,249,518**	**(55,927,360)**	**70,715,773**
Expenses:			
Losses and loss adjustment expenses	214,828,123	48,026,209	(2,781,236)
Acquisition expenses	30,575,753	18,417,790	16,315,353
Operating expenses	16,929,793	13,373,223	13,378,816
Interest expense	8,375,000	8,375,000	2,750,000
Total expenses	**270,708,669**	**88,192,222**	**29,662,933**
Net (loss) income	**$ (159,459,151)**	**$ (144,119,582)**	**$ 41,052,840**
Net (loss) income per common share:			
Basic	$ (5.85)	$ (5.29)	$ 1.53
Diluted	(5.85)	(5.29)	1.53
Weighted-average number of common shares outstanding:			
Basic	27,249,220	27,237,481	26,787,221
Diluted	27,249,220	27,237,481	26,843,583

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2008	**2007**	**2006**
Net (loss) income	$ (159,459,151)	$ (144,119,582)	$ 41,052,840
Other comprehensive (loss) income			
Change in unrealized appreciation/(depreciation) of investments	(6,912,245)	12,780,249	(1,958,979)
Less: Reclassification adjustment for net realized losses on investments included in net (loss) income	2,355,915	3,604,220	1,002,055
Other comprehensive (loss) income	(4,556,330)	16,384,469	(956,924)
Comprehensive (loss) income for the year	**$ (164,015,481)**	**$ (127,735,113)**	**$ 40,095,916**

See accompanying Notes to Consolidated Financial Statements.

RAM Holdings Ltd.
Consolidated Statements of Shareholders' Equity and Retained (Deficit) Earnings

	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained (deficit) earnings	Total
Balance, January 1, 2006	$ 2,588,476	$ 211,056,634	$ (4,539,719)	$ 113,550,701	$ 322,656,092
Share issuance	135,000	16,456,872	—	—	16,591,872
Committed preference share expenses	—	(523,499)	—	—	(523,499)
Share based compensation	—	446,833	—	—	446,833
Net income	—	—	—	41,052,840	41,052,840
Other comprehensive loss	—	—	(956,924)	—	(956,924)
Balance, December 31, 2006	2,723,476	227,436,840	(5,496,643)	154,603,541	379,267,214
Reclassification of committed preference share expenses	—	1,161,703	—	(1,161,703)	—
Share issuance	422	(422)	—	—	—
Share based compensation	—	780,297	—	—	780,297
Net loss	—	—	—	(144,119,582)	(144,119,582)
Other comprehensive income	—	—	16,384,469	—	16,384,469
Balance, December 31, 2007	2,723,898	229,378,418	10,887,826	9,322,256	252,312,398
Share issuance	1,262	(1,262)	—	—	—
Share based compensation	—	1,060,972	—	—	1,060,972
Net loss	—	—	—	(159,459,151)	(159,459,151)
Other comprehensive loss	—	—	(4,556,330)	—	(4,556,330)
Balance, December 31, 2008	$ 2,725,160	$ 230,438,128	$ 6,331,496	$ (150,136,895)	$ 89,357,889

See accompanying Notes to Consolidated Financial Statements.

RAM Holdings Ltd.
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net (loss) income for the year	$ (159,459,151)	$ (144,119,582)	$ 41,052,840
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Net realized losses on investments	2,355,915	3,604,220	1,002,055
Net unrealized (gains) losses on credit derivatives	(94,288,456)	177,777,141	14,426
Net unrealized (gain) on other financial instruments	(7,753,370)	(35,330,000)	—
Depreciation and amortization	205,054	210,534	141,443
Amortization of debt discount	6,280	6,280	6,280
Amortization of bond premium and discount	1,646,258	798,087	486,654
Share based compensation	1,060,972	780,297	446,833
Changes in assets and liabilities:			
Accrued investment income	2,027,237	(1,238,319)	(534,583)
Premiums receivable	2,529,207	(180,465)	(1,476,118)
Recoverables on paid losses	11,099	(892,041)	363,603
Deferred policy acquisition costs	12,509,119	(13,466,738)	(7,617,283)
Prepaid reinsurance premiums	1,063,499	(571,319)	(2,091,354)
Prepaid expenses	(182,081)	(10,665)	(70,619)
Other receivables	(4,000,000)	—	—
Deferred expenses	—	476	(40,346)
Losses and loss adjustment expenses	31,996,510	49,291,966	(2,089,089)
Unearned premiums	(81,363,645)	47,316,014	28,871,792
Derivative liability	(946,792)	1,190,812	(129,757)
Reinsurance balances payable	24,081,717	(671,289)	1,210,683
Accounts payable and accrued liabilities and interest payable	(969,407)	5,179	350,212
Share based compensation liability	—	—	(2,801,535)
Net cash (used in) provided by operating activities	**(269,470,035)**	**84,500,588**	**57,096,137**
Cash flows from investing activities:			
Purchases of investments	(251,363,052)	(244,097,849)	(220,303,995)
Proceeds from sales of investments	427,136,405	18,228,122	111,000,298
Proceeds on maturities of investments	90,310,675	109,867,972	7,996,521
Net sales (purchases) of short term investments	—	10,040,385	(9,820,200)
Net change in restricted cash	(106,702)	(1,924,424)	(2,885,453)
Purchases of fixed assets	(70,542)	(24,334)	(19,864)
Net cash provided by (used in) investing activities	**265,906,784**	**(107,910,128)**	**(114,032,693)**
Cash flows from financing activities:			
Net issuance (redemption) of share capital	—	—	16,591,872
Net proceeds from issuance of preference shares	—	—	73,901,496
Committed preference securities expenses	—	—	(523,499)
Net cash provided by financing activities	**—**	**—**	**89,969,869**
Net (decrease) increase in cash and cash equivalents	**(3,563,251)**	**(23,409,540)**	**33,033,313**
Cash and cash equivalents – Beginning of year	12,326,313	35,735,853	2,702,540
Cash and cash equivalents – End of year	**$ 8,763,062**	**$ 12,326,313**	**$ 35,735,853**
Supplemental cash flow disclosure:			
Interest paid on redeemable preference shares	$ 5,625,000	$ 5,625,000	$ —
Interest paid on long-term debt	$ 2,750,000	$ 2,750,000	$ 2,750,000

See accompanying Notes to Consolidated Financial Statements.

RAM Holdings Ltd.
Notes to Consolidated Financial Statements

1 BACKGROUND

RAM Holdings Ltd. ("Holdings"), RAM Holdings II Ltd ("Holdings II") and RAM Reinsurance Company Ltd ("RAM Re"), collectively the "RAM Re Group of Companies", were incorporated on January 28, 1998 under the laws of Bermuda. RAM Holdings and Holdings II, the owners of all of the voting and non-voting common shares of RAM Re, entered into an amalgamation (merger) agreement pursuant to which the two companies amalgamated as of May 1, 2006. Upon completion of the amalgamation, all of the shares of RAM Re are held by RAM Holdings Ltd. ("the Company"), the amalgamated entity of RAM Holdings and Holdings II.

On May 2, 2006, the Company completed an initial public offering ("IPO"). The Company's common shares are traded on the NASDAQ Global Market under the symbol of "RAMR".

RAM Re is a Bermuda-based company whose principal activity is the reinsurance of financial guarantees of public finance and structured finance debt obligations insured by monoline financial guaranty companies (the "primary insurers" or the "primaries"). We refer to the primaries that reinsure with RAM Re as "ceding companies". RAM Re provides reinsurance through treaty and facultative agreements that it maintains with each of its customers. Financial guaranty reinsurance written by RAM Re generally provides for guarantees of scheduled principal and interest payments on an issuer's obligation in accordance with the obligation's original payment schedule and, in rare circumstances, such amounts are payable on an accelerated basis.

The unprecedented deterioration in the U.S. housing market since the latter half of 2007 and the resulting lack of liquidity in the capital markets has had a substantial adverse impact on the financial guaranty industry generally and the Company in particular. It is uncertain whether the primary financial guaranty market will return to the level of business volume of prior years. As a result of these adverse developments and the downgrades of the Company's ratings from AAA to A+ by Standard & Poor's Ratings Services ("S&P") and from Aa3 to Baa3 by Moody's Investors Service ("Moody's"), we wrote only a modest amount of new financial guaranty reinsurance business in 2008 and have not renewed our reinsurance treaties with the primaries or written any new financial guaranty business to date in 2009.

Our business strategy

In response to the economic and rating events referenced above, we are continuing efforts that we began in 2008 to reduce the volatility of our insured portfolio and evaluate our business model:

- *Reducing our insured risk exposure*: We commuted our entire insured portfolio assumed from Syncora Guaranty Re Ltd. and MBIA, effective July 25, 2008 and November 30, 2008, respectively. We commuted our entire insured portfolio assumed from Ambac Assurance Corporation effective April 8, 2009. See Note 27, "Subsequent Events." We are pursuing further commutations in cases where they can be negotiated at acceptable prices. In addition, we are pursuing legal actions against our ceding companies in cases where we dispute the validity of cessions made under our treaties or ceded losses.

- *Capital preservation and evaluation*: We reduced our new business growth in 2008 and have not written any business to date in 2009. We are evaluating our capital position in light of ongoing deterioration in the credit markets to determine whether we have sufficient capital in excess of that required to pay claims and other obligations under various stress scenarios to pursue opportunities to deleverage our capital structure by repurchasing our outstanding securities and, in the longer term, new business opportunities.

- *Reducing expenses*: In order to reduce our expenses, we are actively considering whether to de-list our common shares from trading on NASDAQ and de-register our securities under the Securities Exchange Act of 1934 as promptly as possible after the filing of this annual report on

Form 10-K. If we de-list and de-register, we would no longer file annual, quarterly and current reports or proxy statements with the U.S. Securities and Exchange Commission. We estimate that these actions will reduce our expenses by at least $2 million per year, although the full effect of this cost savings is not expected until 2010. We also requested on March 17, 2009 that Moody's withdraw our financial strength rating, which will result in us no longer paying an annual fee to Moody's. We are also evaluating other measures to reduce expenses.

We are not seeking to write any new business in the near term, although we believe that if we are successful in the strategic measures set forth above, it will improve our position to potentially write new business in the future. We continue to evaluate our business model and may pursue a different set of strategies in the future. There can be no assurance that the strategies that have been implemented or that will be pursued in the future in connection with this evaluation will improve our business, financial condition, liquidity or results of operations or will not have a material adverse effect on the Company.

Liquidity

RAM Holdings is a holding company and therefore our liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the next twelve months), is largely dependent upon (1) the ability of RAM Re to pay dividends or make other payments to us and (2) our ability to access the debt and equity markets, which is unlikely in the near term given current market conditions and the Company's current share valuation. Our principal uses of liquidity are for payment of interest on our senior notes, non-mandatory dividends on our preference shares and capital investments in RAM Re. On March 19, 2009, RAM Re's Board approved a dividend of $2.8 million from RAM Re to RAM Holdings'. Based on the amount of dividends that we received on March 19, 2009, we believe that we will have sufficient liquidity to pay interest on our senior notes over the next twelve months. RAM Re's ability to declare and pay dividends to us may be influenced by a variety of factors such as adverse loss development, insurance regulatory changes and changes in general economic conditions, beyond the next twelve months, the amounts required to be held by us in trust for the benefit of our U.S. regulated customers and Bermuda law as described below. Consequently, although we believe that we will continue to have sufficient liquidity to meet our obligations over the long term, we cannot guarantee that RAM Re will be able to dividend amounts sufficient to satisfy all our obligations, and there can be no assurance that dividends will be declared or paid in the future.

The principal sources of RAM Re's liquidity are gross written premiums, scheduled investment maturities, existing soft capital facilities and net investment income. The principal uses of RAM Re's liquidity are for the payment of operating expenses, claims, ceding commissions, reinsurance premiums, dividends on RAM Re preference shares, dividends to RAM Holdings and for purchases of new investments and more recently funding commutation agreements. We believe that RAM Re's expected operating liquidity needs can be funded from its operating and investing cash flows for the next twelve months. Further increases in loss reserves and credit impairments would require RAM Re to deposit additional collateral in the applicable trust account(s); and resulting claims payments in respect of those losses and impairments would increase cash outflows and could decrease the size of RAM Re's investment portfolio, in turn decreasing income from investments.

RAM Re may declare dividends, *provided* that, after giving effect to the distribution, it would not violate certain statutory equity, solvency and asset tests. The Bermuda Insurance Act requires RAM Re to meet a minimum solvency margin equal to the greater of (i) $1.0 million, (ii) 20% of net premiums written up to $6.0 million plus 15% of net premiums written over $6.0 million, and (iii) 15% of loss and other insurance reserves. To satisfy these requirements, RAM Re was required to maintain a minimum level of statutory capital and surplus of $15.3 million at December 31, 2008. RAM Re's statutory capital and surplus was $158.4 million at December 31, 2008. In addition to the solvency margin, the Bermuda Insurance Act requires RAM Re to comply with a liquidity ratio whereby the value of its relevant assets must be not less than 75% of the amount of its relevant liabilities. In the event RAM Re fails to meet its Relevant Margins on the last day of any financial year, it shall not without the approval of the Bermuda Monetary Authority (the "BMA"), declare or pay any dividend during the next financial year. In addition, under the Bermuda Insurance Act, Class 3B insurers are prohibited from declaring or paying any dividends of more than 25% of its total statutory capital and surplus, as shown on its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends it files with the BMA an affidavit that it will continue to meet its required solvency margins. Based upon these tests, without filing an affidavit with

the BMA, the maximum amount that will be available during 2009 for payment by RAM Re is approximately $39.6 million, which amounts may be further restricted by Enhanced Credit Requirements expected to be applied by the BMA to Class 3B insurers in the future.

RAM Re and the Company must also comply with the provisions of the Bermuda Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) the company is, or would after the payment, be unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. The Board of Directors of RAM Re and the Company will evaluate any dividends in accordance with this test at the time such dividends are declared.

In addition, the terms of RAM Re's Class B preference shares restrict RAM Re's ability to pay dividends on its common shares unless all accrued and unpaid dividends on the Class B preference shares for the then current dividend period have been declared and paid or a sum sufficient for payment thereof set apart. There is an exception however that permits RAM Re to declare dividends on its common shares in such amounts as are necessary for RAM Holdings (i) to service indebtedness for borrowed money as such payments become due (or to satisfy any of its guarantee obligations made in respect of indebtedness of RAM Re or RAM Holdings) or (ii) to pay its operating expenses.

On September 24, 2008 RAM Re was downgraded by S&P to A+ from AA and on December 4, 2008 RAM Re was downgraded by Moody's to Baa3 from A3. On March 17, 2009, RAM Re requested that Moody's withdraw its rating. The downgrade of RAM Re's ratings has had an adverse effect on RAM Re's ability to compete in the financial guaranty reinsurance industry and significantly decreased the value of the reinsurance provided. Due to the above mentioned downgrades, certain ceding companies have the right, after a cure period, to increase the ceding commission, as stipulated in the treaties, or terminate the treaties and recapture the business previously ceded to RAM Re whether written in financial guaranty or credit derivative form. To the extent policies are recaptured, RAM must forfeit to the ceding company an amount determined by formula under each treaty which generally consists of RAM's allocated share of the U.S. statutory unearned premium, net of the ceding commission paid by RAM to the ceding company (subject to a penalty amount in some cases), and loss reserves established with respect to the policies ceded, as applicable. U.S. statutory premiums usually earn at a slower rate than GAAP premiums and therefore any forfeiture of U.S. statutory unearned premiums would result in a loss on a GAAP basis. In some cases, the ceding companies have the right to select specific years of business written to recapture, and a decision by a ceding company to recapture, for example, all business written prior to 2006, could have a material adverse effect on RAM Re because of the projected losses associated with the business written in the last three years. As of April 13, 2009, none of the primaries have recaptured any business. The commutations negotiated during the year were not a result of these treaty terms. As at December 31, 2008, we have accrued or paid additional ceding commissions related to the S&P downgrade totaling $20.3 million which is being expensed as the related premiums are earned. We are unable to estimate any further ceding commission increase resulting from the Moody's downgrade because Moody's has not yet established the amount of further reinsurance credit we provide to each of the primaries at the Baa3 level.

At December 31, 2008, the Company has $438.9 million of cash and investments of which $378.9 million is held in trust for the benefit of our ceding companies, leaving $60.0 million cash and investments available for the cost of ongoing business. The trust accounts are required to hold cash and investments equivalent to unearned premiums, case-basis loss reserves and credit impairments, and a contingency reserve calculated by the ceding companies, and the balances are adjusted at least annually. Currently, losses are paid out of our unrestricted cash rather than our trust accounts which reduces available cash until the trust accounts are adjusted. Subsequent to December 31, 2008, approximately $32.9 million was released from the trust accounts to the Company's operating account.

Management believes that the Company has sufficient capital resources and liquidity to meet its obligations for at least twelve months subsequent to the balance sheet date and therefore that the Company remains a "going concern", even if the Company does not write any new business during that time period.

2 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted by the Company:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as of the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ materially from those estimates.

(b) Basis of consolidation

As discussed in Note 1, RAM Holdings Ltd and RAM Holdings II Ltd were amalgamated on May 1, 2006 and these consolidated financial statements reflect the amalgamation. There was no effect to shareholders’ equity or results of operations on amalgamation. The consolidated accounts of Holdings include those of its subsidiary, RAM Re. All significant intercompany balances have been eliminated on consolidation.

(c) Cash and cash equivalents

The Company considers all highly liquid investments, including fixed-interest and money market fund deposits, with a maturity of 90 days or less when purchased as cash equivalents.

(d) Investments

The Company has classified its fixed-maturity investments as available for sale as defined by Statement of Financial Accounting Standards No. 115 (“SFAS 115”). Available for sale investments are carried at fair value, with unrealized appreciation or depreciation reported as a separate component of accumulated other comprehensive income. The Company’s fair values of fixed maturity and short-term investments are based on prices obtained from nationally recognized independent pricing services. All investment transactions are recorded on a trade date basis. Realized gains and losses on sales of fixed maturity investments are determined on the basis of amortized cost. Gains and losses on sale of investments are included in investment income when realized. The cost of securities sold is determined using the specific identification method. Short-term investments are carried at amortized cost, which approximates fair value, and include all securities with maturities greater than 90 days but less than one year at time of purchase. All declines in fair value below cost that are considered other than temporary are recognized in income. Factors considered when assessing impairment include: (i) securities whose market values have declined by 20% or more below amortized cost for a continuous period of at least six months; (ii) credit downgrades by rating agencies; (iii) the financial condition of the issuer; (iv) whether scheduled interest payments are past due; and (v) whether the Company has the ability and intent to hold the security for a sufficient period of time to allow for anticipated recoveries in fair value. The Company’s investment guidelines require the orderly sale of securities that do not meet investment guidelines due to a downgrade by rating agencies or other circumstances, unless otherwise authorized by management to hold.

(e) Premium revenue recognition

Installment premiums are recorded as written at each installment due date and are earned over the respective installment period, which equates to the period of risk. All other premiums written are recorded as written at the inception of the policy and are earned ratably over the period of risk.

When insured issues are refunded or called, the remaining unearned premiums are earned at that time, since there is no longer risk to the Company. Premiums are recorded on a one month lag due to the timing of receipt of the information from the ceding companies. Premiums earned for 2008, 2007, and 2006, respectively, includes $23.7 million, $5.7 million, and $6.3 million related to refundings.

(f) **Deferred policy acquisition costs**

Deferred policy acquisition costs comprise those expenses that vary with and are primarily related to the production of business, including ceding commissions paid on reinsurance assumed, a portion of salaries and related costs of underwriting personnel, rating agency fees, and certain other underwriting expenses. Policy acquisition costs are deferred and amortized over the period in which the related premiums are earned. Policy acquisition costs related to insured derivative transactions are expensed as incurred. When assessing the recoverability of deferred policy acquisition costs, the Company considers the future earnings of premiums paid upfront, the estimated present value of net installment premiums to be received and anticipated investment income and compares this to the sum of unamortized policy acquisition costs and expected loss and loss adjustment expenses. This comparison is completed by underwriting year and risk type. If a premium deficiency were calculated the unamortized acquisition costs would be reduced by a charge to expense.

For policies retroceded, the Company receives ceding commissions to compensate for acquisition costs incurred. The Company nets ceding commissions received against deferred acquisition costs and earns these ceding commissions over the period in which the related premiums are earned.

(g) **Losses and loss adjustment expenses**

The Company's liability for losses and loss adjustment expenses consists of case-basis reserves and an unallocated reserve.

Case-basis reserves are established based on ceding company reports and internal review and evaluation of exposures related to guaranteed obligations that either have already defaulted or have a high and estimable probability of default. Management's review and analysis of case-basis reserves includes an analysis of the present value of the expected ultimate losses and loss adjustment expense that the Company expects to pay less estimated recoveries. The amount of the expected loss, net of expected recoveries, is discounted based on a discount rate of approximately 5% for all periods presented. Changes to the ceding company's reserves are reported at regular intervals and are reviewed for reasonableness by the Chief Risk Manager and the Company's Management Committee.

Case-basis reserves for policies with installment premiums are established net of expected future installments premiums, as such premiums are considered a form of recovery when installment premiums are considered collectible. Case-basis reserves established for policies with upfront premiums do not reflect the benefit of deferred premium revenue, which the Company continues to earn over the remaining life of the policy.

The Company maintains an unallocated reserve as established by the Management Committee and estimated based on the composition of our outstanding par exposure and reserve factors applied to this exposure so that, all else being equal, increases in outstanding par will result in increases in unallocated reserves. Our reserve factors are the product of i) the ratios of the unallocated reserves of our ceding companies relative to their outstanding exposures and ii) the credit risk of our outstanding exposure relative to the credit risk of the portfolios of our ceding companies, where credit risk is assessed by weighted average capital charges (a commonly recognized measure of credit risk promulgated by S&P). RAM Re's insured portfolio is segregated by primary insurer, and the above ratios are calculated individually by primary insurer. Therefore,

changes in the following factors would result in changes in our unallocated reserves under our current practices:

1. The reserving practices of the primaries (such as could occur if estimates of default frequency or severities of loss given default were to change);

2. Developments that could result in a change in the relativities between the weighted average capital charge for our portfolio exposures versus those of the primary insurers (such as could occur if modifications of capital charges by Standard & Poor's were to differentially impact RAM Re and the primaries); or

3. Developments in the credit quality of our portfolio relative to our primaries.

RAM Re's unallocated reserve is reviewed periodically by the Management Committee and the estimate may be modified if industry experience or company specific-developments are judged to warrant such an adjustment. For example, as at December 31, 2008, some of the primaries increased the unallocated reserves for residential mortgage-backed securities, which has been reflected in our unallocated loss reserve calculation.

The unallocated reserve is established to cover estimated losses on par exposures based on historical industry experiences of losses and defaults. As case reserves are established, the par related to that particular credit is removed from the total par used to calculate the unallocated reserve as described above.

Additionally, management considers internal guidelines in place which address the procedures followed to determine that the total best estimate continues to be based upon expected loss experience over the long term and is not overly influenced by one short term development on one loss. Specifically, the Management Committee has two guidelines with respect to the interaction of unallocated (excluding any calculated by management on specific policies) and case reserves. No more than 20% of the unallocated reserve balance at quarter end can be reduced to offset a case reserve associated with a single default. No more than 50% of the unallocated reserve balance at year end can be reduced to offset aggregate case reserve activity during the following year. These internal guidelines are not mandatory as they are subject to management judgment based on specific facts and circumstances.

The Company reviews the portfolio on a continuous basis to identify problem credits. Quarterly, the Management Committee formally reviews case and the unallocated reserves. Management establishes reserves that it believes are adequate to cover the present value of the ultimate liability for claims. The reserves are based on estimates and are substantially dependent on the surveillance activities and reserving policies of our ceding companies and may vary materially from actual results. Adjustments based on actual loss experience will be recorded in the periods in which they become known.

The Company recognizes that there is diversity in practice among financial guaranty insurers and reinsurers with respect to their accounting policies for unallocated loss reserves. Current accounting literature, specifically FASB Statement of Financial Accounting Standards No. 60 "Accounting and Reporting by Insurance Enterprises" (FAS 60) and FASB Statement of Financial Accounting Standards No. 97 "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" ("FAS 97"), do not specifically address the unique characteristics of financial guarantee insurance contracts. Consequently, the accounting principles applied by the industry, as well as the Company, have evolved over time and incorporate the concepts of both short-duration contracts, accounted for under the provisions of FAS 60 and long duration accounting under FAS 97, as well as other accounting literature, such as FASB No. 5 "Accounting for Contingencies" and Emerging Issues Task Force ("EITF") Issue No. 85-20 "Recognition of Fees for Guaranteeing a Loan". The Company will continue its loss reserving methodology as noted above until the adoption of FAS

163. See recent accounting pronouncements (part 2(k) of this note) for further discussion of this issue.

(h) **Reinsurance**

In the ordinary course of business, the Company cedes business to other insurance and reinsurance companies. These agreements enable the Company to manage its risk concentration limits thereby providing greater risk diversification and may minimize the net potential loss from large risks. Retrocessional contracts do not relieve the Company of its obligation to the reinsured. Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers relating to the unexpired terms of the reinsurance contracts in force. During 2008, the Company had one retrocessional agreement in place. This agreement has been terminated on a "run-off" basis effective December 31, 2008.

(i) **Derivative instruments**

The Company has entered into agreements to reinsure derivative instruments, consisting primarily of credit default swaps that it intends to reinsure for the full term of the contract. While management considers these agreements to be a normal extension of its financial guaranty reinsurance business and reinsurance in substance, under FASB Statement of Financial Accounting Standards No. 149 ("FAS 149"), the reinsurance the Company provides does not meet the scope exception that excludes most financial guaranty policies from the fair value provisions of FASB Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). The credit default swaps that the Company assumes from ceding companies do not meet the scope exception provided under FAS 149 because (a) the guaranteed party (*i.e.*, the underlying insured) is entitled to recover amounts on occurrence of events other than failure to pay principal and interest when due; and (b) the guaranteed party is not exposed to the risk of non-payment at the inception of the contract and throughout the contract term as the guaranteed party does not have legal ownership of the guaranteed obligation. As the assumed policies do not qualify for the scope exception under FAS 149, the Company must account for these assumed credit default swaps under the provisions of FAS 133, and not as reinsurance under FASB Statement of Financial Accounting Standards No. 113, "Accounting and Reporting for Reinsurance under Short-Duration and Long-Duration Contracts." FAS 133 establishes accounting and reporting standards for derivative instruments, and requires the Company to recognize the derivative instruments on the balance sheet at their fair value, with changes in fair value recognized in earnings. Changes in fair value are recorded in "Net change in fair value of credit derivatives" on the Consolidated Statement of Operations. The "Realized gains and losses and other settlements" component of this change in fair value includes, (i) net premiums earned on credit derivative policies, including current premiums receivable on assumed credit derivative polices, net of ceding commissions, and (ii) loss payments to the reinsured including losses payable upon the occurrence of a credit event. The "Unrealized gains and losses" component of the "Net change in fair value of credit derivatives" includes all other changes in fair value, including changes in instrument specific credit spreads and reduction in fair values due to commutation of credit derivative policies.

Through June 30, 2007, RAM valued its credit default swap portfolio using an internally developed model. While the model estimated an appropriate fair value during normal market conditions, the internal model output would not fully reflect the effect of market conditions and the large changes in credit spreads being experienced. Management therefore determined that a more appropriate basis for our estimate of fair value was to use as a key input, from September 30, 2007 onward, the valuation information provided to us by our ceding companies. RAM participates in credit default swaps through a reinsurance treaty with a ceding company and therefore the contract to be valued is a reinsurance contract on a derivative. This contract is not identical to the underlying credit default swaps. In particular, although RAM's contract allows it to share in the economic results of the underlying contracts, it does not provide rights to the same information that the ceding companies have access to. Under FAS 157, the fair value of RAM's

contract represents the exit price that would be paid to a market participant to assume the reinsurance contract as written; that is, the amount the market participant would require to assume RAM's potential obligations under the contract with the same contractual rights and obligations, including those which limit the information about the ceding companies' underlying contracts that are being reinsured. Given the contractual terms that exist, RAM believes that an exit market participant would look to the information that is available from the ceding companies to determine the exit value of RAM's reinsurance contract. The primary insurers underwrite each of the transactions underlying the reinsurance contract and they have access to all the underlying data related to the transactions. The ceding companies use their own internal valuation models where market prices are not available. RAM employs procedures to test the reasonableness of the mark both in process and absolute terms because we believe that an exit market participant would perform similar procedures when determining an exit price for our reinsurance contract. If it appears that the fair values generated by the ceding companies internal models and reported to RAM are consistent with macro spread movements and general market trends, and RAM believes that the modeling and assumptions that drive the modeling are reasonable (based on RAM's ceding company audits and review of publicly available information), RAM will use the mark provided by the ceding company as a key input in the determination of the fair value of reinsurance contract. There is no single accepted model for fair valuing credit default swaps and there is generally not an active market for the type of credit default swaps insured by ceding companies and reinsured by us. Therefore, due to the limited availability of quoted market prices for these derivative contracts and the inherent uncertainties in the assumptions used in models, different valuation models may produce materially different results and be materially different from actual experience. In addition, due to the complexity of fair value accounting and the application of FAS 133 and FAS 157, future amendments or interpretations of FAS 133 and FAS 157 may cause us to modify our accounting methodology in a manner which may have an adverse impact on our financial results.

On January 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157 "Fair Value Measurement" ("FAS 157"). This statement provides guidance for fair value measurement of assets and liabilities and associated disclosures about fair value measurement. Under this standard, the definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). FAS 157 clarifies that fair value is a market-based measurement, not an entity-specific measurement. FAS 157 establishes a fair value hierarchy of inputs in measuring fair value, with the highest level being observable inputs and the lowest being unobservable data as follows:

Level 1 inputs – valuations based on quoted prices in active markets for identical assets or liabilities. Valuations in this level do not entail a significant degree of judgment.

Level 2 inputs – valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model derived valuations where all significant inputs are observable in active markets.

Level 3 inputs – valuations based on significant inputs that are unobservable.

Under FAS 157, the use of valuation information provided to us by our ceding companies remains appropriate for the reasons described above, as well as the fact that the credit default swaps we reinsure are the same as that valued by our primaries, and the Company views its hypothetical principal market to be the same as our primaries, being the financial guaranty insurance and reinsurance market. The Company's fair value on credit derivatives is adjusted for the Company's own non-performance risk in accordance with FAS 157 (see Note 4, Derivative instruments).

(j) **Fair Value of Financial Instruments**

The put option relating to the Company's preference share soft capital facility is a financial instrument and is fair valued with the fair value measurement representing the value to the Company in the current market environment. The gain or loss on the put option is recorded on the consolidated balance sheet and changes in fair value are reported through the statement of operations in "Unrealized Gain/(Loss) on Other Financial Instruments". Valuations are based on unobservable inputs including assumptions over the Company's performance and future outlook, the facility, the current market conditions, and other similar instruments in the market. Subsequent to year end on February 17, 2009, the put option was exercised.

(k) **Recent accounting pronouncements**

In January 2009, the FASB issued FSP EITF 99-20-1 "Amendments to the Impairment Guidance of EITF Issue No. 99-20" which amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether an other-than-temporary impairment has occurred with that of SFAS 115. The adoption of FSP EITF 99-20-1 did not have a material effect on the Company's consolidated balance sheets, results of operations or cash flows.

On May 23, 2008, the Financial Accounting Standards Board ("FASB") issued FASB statement No. 163 "Accounting for Financial Guarantee Insurance Contracts" ("FAS 163"). FAS 163 clarifies how FASB Statement No. 60 "Accounting and reporting by Insurance Enterprises" applies to financial guaranty insurance contracts. FAS 163 is focused on the recognition and measurement of premium revenue and claims liabilities, along with additional disclosure requirements for financial guaranty contracts. The standard requires the following:

1. Premium revenue will be recognized as a function of the amount of insurance protection provided over the contract term.

2. Present value of installment premiums due pursuant to the terms of a financial guaranty insurance contract will be recognized at inception of the contract as unearned premiums and premiums receivable, which is inconsistent with current industry accounting practice.

3. A claim liability will be established on a financial guaranty contract when the probability weighted net present value of an expected claim loss is estimated to exceed the related unearned premium revenue. Provision of unallocated reserves is not permitted under the standard.

4. Additional disclosures will be required on financial guaranty contracts, the accounting and risk management activities used to evaluate credit deterioration in the Company's insured obligations and surveillance lists.

FAS 163 is effective for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, with the exception of certain risk management disclosures which are effective for the interim financial statements prepared as of September 30, 2008, and are presented and disclosed for the current period in "Note 11 – Loss and Loss Adjustment Expense Reserve" in the Notes to the Consolidated Financial Statements. Early application is not permitted. The standard does not apply to credit derivatives. The effect of fully adopting FAS 163 will be recognized as an adjustment to opening retained earnings for the fiscal year beginning January 1, 2009. The Company is currently assessing the potential impact, which is likely to be material, of applying FAS 163 and at this time is unable to quantify the effect of the adoption of this standard.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4 "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 145; and Clarification of the Effective Date of FASB Statement No. 161". FSP No. FAS 133-1 requires enhanced disclosures about credit derivatives and guarantees and amends FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" to exclude derivative instruments accounted for at fair value under SFAS No. 133. The FSP is effective for financial statements issued for reporting periods ending after November 15, 2008. The Company has adopted FSP FAS No. 133-1 and FIN 45-4 for the reporting period ending December 31, 2008 (see Note 4, Derivative instruments for disclosures on our credit derivatives). Since FSP FAS No. 133-1 and FIN 45-4 only requires additional disclosures concerning credit derivatives and guarantees, adoption of FSP FAS No. 133-1 and FIN 45-4 has not affected the Company's financial position or results of operations.

In March 2008 the FASB issued FAS No. 161 "Disclosures About Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133" ("FAS 161"). FAS 161 establishes the disclosure requirements for derivative instruments and for hedging activities. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is encouraged. FAS 161 was adopted for the reporting period ending December 31, 2008. See Note 4, Derivative instruments for disclosures on our credit derivatives. Since FAS 161 only requires additional disclosures concerning credit derivatives, FAS 161 has not affected the Company's results of operations or financial position.

In September 2006, the FASB issued FAS No. 157 ("FAS 157"), "Fair Value Measurements". This Statement provides guidance for using fair value to measure assets and liabilities and associated disclosures about fair value measurement. Under this standard, the definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). FAS 157 clarifies that fair value is a market-based measurement, not an entity-specific measurement, and establishes a fair value hierarchy with the highest priority being quoted prices in active markets and the lowest priority to unobservable data. Further, FAS 157 requires expanded disclosures of the fair value measurements by level within the fair value hierarchy that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The Company adopted FAS 157 effective January 1, 2008. See Note 4, Derivative Instruments and Note 10, Fair value of Financial Instruments for further information.

In October 2008, the FASB issued FASB Staff Position No. 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"). FSP 157-3 clarifies the application of FAS 157 in an inactive market and the provisions of the FSP were effective upon issuance. FSP 157-3 did not have an effect on the Company's results of operations or financial position. The Company had minimal assets in its investment portfolio which were not active at December 31, 2008. The provisions were applied to its financial instrument asset (see Note 10).

In February 2007, the FASB issued FAS No. 159 ("FAS 159"), Fair Value Option for Financial Assets and Financial Liabilities. This statement provides companies with an option to report selected financial assets and liabilities at fair value. The statement requires the fair value of the assets and liabilities that the company has chosen to fair value be shown on the face of the balance sheet. The standard also requires companies to provide additional information to enable users of the financial statements to understand the company's reasons for electing the fair value option and how changes in the fair values affect earnings for the period. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for fiscal years beginning on or after November 15, 2007. The Company adopted FAS 159 effective January 1, 2008. The fair value option was not applied to any eligible items on the adoption date.

(l) **Reclassifications**

Certain reclassifications have been made to the prior period amounts to conform to the current period's presentation.

Credit Derivatives presentation:

As at January 1, 2008, RAM implemented a change in the presentation of revenues, expenses and balance sheet items relating to financial guaranty contracts that the Company reinsures in the form of credit default swap ("CDS") contracts. This reclassification did not change the Company's (loss)/net income, comprehensive (loss)/ income, (loss)/earnings per share or shareholders' equity. This reclassification was adopted after agreement between members of the Association of Financial Guaranty insurers ("AFGI") and discussions with the Securities and Exchange Commission, to increase comparability of the Company's financial statements with other financial guaranty companies that have credit derivative contracts.

CDS contract revenue has been reclassified in the consolidated statement of operations (see above derivative instruments accounting policy note for further details). Amounts relating to CDS contracts within "net earned premiums", "acquisition expenses" (or ceding commissions) and "loss and loss adjustment expenses" have been reclassified to "realized (losses) gains and other settlements on credit derivatives". The Company has reclassified all CDS-related balances in the consolidated balance sheet included in "unearned premiums" to "derivatives liabilities". The balances on the Company's balance sheet as of December 31, 2007, and related statements of operations and comprehensive income and cash flows for the years ended December 31, 2007 and 2006, affected by the reclassifications are as follows:

Consolidated Balance Sheets	**As of December 31, 2007**	
Liabilities:	**As previously reported**	**As reclassified**
Unearned premiums	$ 242,829,191	$ 239,957,383
Derivative liabilities	177,717,110	180,588,918
Total liabilities	607,953,061	607,953,061

Consolidated Statement of Operations	**Year Ended December 31, 2007**		**Year Ended December 31, 2006**	
	As previously reported	**As reclassified**	**As previously reported**	**As reclassified**
Gross premiums written	$ 108,749,672	$ 98,500,663	$ 77,631,605	$ 73,218,339
Change in unearned premiums	(47,935,507)	(46,744,694)	(26,650,681)	(26,780,438)
Net earned premiums	60,062,6377	51,004,441	48,835,265	44,292,242
Realized gains and other settlements	—	5,971,020	—	3,203,910
Unrealized losses on credit derivatives	(177,777,141)	(177,777,141)	(14,426)	(14,426)
Acquisition expenses	21,504,966	18,417,790	17,654,466	16,315,353
Net income	(144,119,582)	(144,119,582)	41,052,840	41,052,840

Statement of Consolidated Cash Flows	**Year Ended December 31, 2007**		**Year Ended December 31, 2006**	
Cash flows from operating activities:	**As previously reported**	**As reclassified**	**As previously reported**	**As reclassified**
Unearned premiums	$ 48,506,826	$ 47,316,014	$ 28,742,035	$ 28,871,792
Derivative liability	—	1,190,812	—	(129,757)
Net cash flows provided by operating activities	84,500,588	84,500,588	57,096,137	57,096,137

(m) **Restricted Cash**

The statement of cash flows for the period ended December 31, 2008 appropriately segregates the effect of changes in restricted cash into a separate line item within investing activities. Restricted cash and the effect of changes in restricted cash balances have historically been included in the balance of cash and cash equivalents and the net increase/(decrease) in cash and cash equivalents, respectively. The statement of cash flows for the years ended December 31, 2007 and 2006 have

been revised to conform to the current period presentation. The effect of the prior-period revised presentation has an immaterial effect on the statement of cash flows.

(n) **Segment Information**

The Company has one reportable segment, financial guaranty reinsurance, which provides financial guaranty reinsurance for public finance, structured finance and other obligations.

3 PLEDGED ASSETS

As of December 31, 2008 and 2007, the Company had restricted cash of $8.3 million and $8.2 million, respectively, and investments at fair value of $370.6 million and $406.7 million, respectively, invested in trust accounts for the benefit of ceding companies. Pursuant to the terms of the reinsurance agreements with ceding companies regulated in the U.S., the Company is required to secure its obligations to these ceding companies in accordance with applicable state statutes governing credit for reinsurance, and may not withdraw funds from these trust accounts without their express permission. Subsequent to December 31, 2008, approximately $32.9 million was released from the trust accounts to the Company's operating account.

4 DERIVATIVE INSTRUMENTS

The Company has entered into agreements to reinsure derivative instruments, consisting primarily of Credit default swaps ("CDS") that it intends to reinsure for the full term of the contract. While management considers these agreements to be a normal extension of its financial guaranty reinsurance business and reinsurance in substance, these transactions reinsured by the Company meet the definition of a derivative under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("FAS 149"), and the Company is required to recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value. The gain or loss on credit derivatives will change at each measurement date based on the underlying assumptions and information used in the estimate of fair value. Such fair value changes may not be indicative of ultimate claims. The credit derivative contracts the Company reinsures require us to make payments upon the occurrence of certain defined credit events relating to an underlying obligation. Credit derivative exposures are substantially similar to financial guaranty insurance contracts and provide for credit protection against payment default, are generally held to maturity, and the unrealized gains and losses on derivative financial instruments will approach zero as the exposure approaches its maturity date, unless there is a credit impairment.

The following table provides the components of "net change in fair value of credit derivatives" included in the Company's consolidated statement of operations related to our credit derivative policies:

	2008	2007	2006
Change in fair value of credit derivatives:			
Credit derivative premiums received and receivable	$ 12,418,183	$ 9,058,196	$ 4,543,023
Ceding commissions on credit derivatives	(3,556,593)	(3,087,176)	(1,339,113)
Losses and loss adjustment expenses[1]	(95,181,459)	—	—
Realized (losses)/gains and other settlements	(86,319,869)	5,971,020	3,203,910
Unrealized gains (losses)[1]	94,288,456	(177,777,141)	(14,426)
Net change in fair value of credit derivatives	$ 7,968,587	$ (171,806,121)	$ 3,189,484

(1) See Note 16 "Commutations" for details of the effect of the commutations with MBIA Insurance Corporation and its affiliates ("MBIA") and Syncora Guaranty Re (formerly XL Financial Assurance Ltd) ("XLFA") on the above balances.

Determining Fair Value

In accordance with FAS 157, Fair Value Measurements, fair value is defined as 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. Fair value is determined based on quoted market prices, if available. Financial guarantors sell credit protection in CDS form to financial institutions in a principal-to-principal market in which transactions are highly customized and negotiated independently. Based on disclosures by the primaries, a CDS contract written by a

financial guarantor differs from typical CDS contracts entered into by parties that are not financial guarantors because:

- CDS contracts written by financial guarantors are neither held for trading purposes (*i.e.*, a short-term duration contract written for the purpose of generating trading gains) nor used as hedging instruments. Instead they are written with the intent to provide protection for the stated duration of the contract, similar to the financial guarantor's intent with regard to a financial guaranty contract.

- Financial guarantors are not entitled to terminate a CDS contract they write that is "in-the-money" and realize a profit on such a position. A counterparty to a CDS contract written by a financial guarantor generally is not able to force the financial guarantor to terminate a CDS contract that is "out-of-the-money."

- The liquidity risk present in most CDS contracts sold outside the financial guaranty industry, *i.e.*, the risk that the CDS writer would be required to make cash payments, is not present in a CDS contract written by a financial guarantor. Terms are designed to replicate the payment provisions of financial guaranty contracts in that (a) losses, if any, are generally paid over time, and (b) the financial guarantor is not required to post collateral to secure its obligation under the CDS contract.

As a result of these differences, we believe there have been few, if any, relevant third-party exit transactions for CDS contracts written by financial guarantors. In the absence of a principal exit market, a financial guarantor determines the fair value of a CDS contract it writes by using internally developed models, as more fully discussed below.

Fair Value Modeling

Each ceding company uses its own internal valuation models where market prices are not available. Given the contractual terms of RAM's reinsurance that limit its access to the terms of the underlying credit derivatives, which are highly individualized, and the underlying loan level data, RAM believes that an exit market participant would look to the information that is available from the ceding companies to determine the exit value of RAM's reinsurance contract, as discussed above. Therefore, the Company, in determining the fair value of derivative instruments, uses credit derivative contract valuations from its ceding companies as a key input. Management then assesses the reasonableness of the ceding companies' valuations on a quarterly basis by i) discussing with primary insurers their mark-to-market valuation methodology including the nature of changes in key assumptions, ii) reviewing the primaries' publicly available information regarding their mark-to-market process, including methodology and key assumptions, and iii) analyzing the movement of each individual derivative policy compared to observable market data, including credit spread movements and collateral delinquency information. Spreads and the related movements quarter to quarter are identified from observable market information such as indices, including the CDX, ABX, CMBX and LCDX indices, as related to specific types of derivative contracts. Overall, the relationship between the widening of credit spreads and fair value is not a linear one due to the mix of policy types (duration, rating, and maturities) within the portfolio. Therefore it is difficult to calculate the actual magnitude of any increase/decrease in the unrealized gain/(loss) with the movement of spreads alone. Additionally, there are many other assumptions that drive the ceding companies' ultimate fair value assessment namely, asset recovery assumptions, correlation across asset assumptions, discount rate used, time to maturity, timing of default assumptions, and collateral posting requirements, where applicable. So while spreads are a significant driving factor in models of fair value they are not the only ones. Changes in correlation and recovery assumptions can result in valuations moving more or less than the absolute movement of spreads. RAM's reinsurance contracts do not provide rights to the detailed underlying data for each policy, or the inputs and assumptions used to obtain the fair valuations as calculated by the ceding companies, and therefore RAM can only generally analyze the fair valuations for consistency with market movements, in conformity with the manner in which RAM believes an exit market participant would analyze the fair valuations given the contractual terms of RAM's reinsurance. If it appears that the marks are consistent with macro spread movements, and general market trends and RAM believes that the modeling and assumptions that drive the modeling are reasonable (based on RAM's ceding company audits and

review of publicly available information), RAM will use the mark provided by the ceding company as a key input in the determination of the fair value of its reinsurance contracts on credit derivatives.

Valuation models used by our ceding companies generally come in two forms, based on our understanding of the models as described to us by our ceding companies:

1. Premium method; A model that calculates the difference between the present value of remaining expected premiums a primary receives for the credit protection on a CDS contract and the estimated present value of premiums that a comparable financial guarantor would hypothetically charge for the same protection at the balance sheet date. The fair value of the primary's credit derivatives depends on a number of factors including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the primary's own credit risk and the remaining contractual cash flows.

2. Expected loss method; A model of the CDS contract that derives a probabilistic measure of expected loss for the primary's exposure using market pricing on the underlying referenced collateral within the transaction. The model calculates expected losses on a collateral pool within an insured credit derivative transaction by reference to the following: credit spreads of the underlying collateral, based on actual spreads or spreads on similar collateral with similar ratings, diversity score of the collateral pool as an indication of correlation of collateral defaults, and recovery rate for all defaulted collateral. The model then allocates the expected losses for each tranche of the transaction according to its subordination level within the transaction structure.

The primary strengths of the Premium Method of fair valuing CDS based on our understanding of this model are:

- The model takes account of transaction structure and the key drivers of market value. The transaction structure includes par insured, weighted average life, level of subordination and composition of collateral.

- The model maximizes the use of market-driven inputs whenever they are available. The key inputs to the model are market-based spreads for the collateral, and the credit rating of referenced entities. These are viewed by us to be the key parameters that affect fair value of the transaction.

- The primaries are able to use actual transactions to validate their model results and to explain the correlation between various market indices and indicative CDS market prices.

- The model is a well-documented, consistent approach to valuing positions that minimizes subjectivity, according to its users. Each company has developed a hierarchy for market-based spread inputs that helps mitigate the degree of subjectivity during periods of high illiquidity.

The primary weaknesses of the Premium Method of valuing CDS are:

- There is no exit market or actual exit transactions. Thus the exit market is a hypothetical one based on each primary's entry market.

- There is a very limited market in which to verify the fair values developed by the model.

- There is diversity of approach to estimating the fair value of these transactions among the financial guarantee insurance companies.

- Due to the non-standard terms under which each primary enters into derivative contracts, the fair value of their credit derivatives may not reflect the same prices observed in an actively traded market of credit derivatives that do not contain terms and conditions similar to those observed in the financial guaranty market.

The primary strengths of the Expected Loss Method of valuing CDS, which we believe is only used by one of the primaries, based on our understanding of this model are:

- The model takes account of transaction structure and the key drivers of market value. The transaction structure includes par insured, weighted average life, level of deductible or subordination and composition of collateral.

- The primary believes its model is a well-documented, consistent approach to marking positions that minimizes the level of subjectivity. The primary has also developed a hierarchy for market-based spread inputs that helps reduce the level of subjectivity, especially during periods of high illiquidity.

- The model uses market inputs whenever they are available. The key inputs to the model for any transactions are market- based spreads for the underlying referenced collateral, assumed recovery rates specific to the type and rating of the referenced collateral, and the diversity score of the collateral pool. These are viewed as key parameters that affect the fair value of the transaction and, to the extent practicable; the inputs are market-based inputs.

The primary weaknesses of the Expected Loss Method of valuing CDS are:

- There is no market in which to verify the fair values developed by the model, and at December 31, 2008, the markets for the inputs to the model were highly illiquid, which impacts their reliability.

- There is diversity of approach to estimating the fair value of these transactions among the financial guarantee insurance companies.

- The averaging of spreads in the model and use of a single diversity factor rather than using specific spreads for each piece of underlying collateral and collateral-specific correlation assumptions may distort results.

Fair values from the ceding companies' models may differ from values calculated by companies outside of the financial guaranty industry because, according to the ceding companies, the terms of the CDS contracts insured generally differ from other non-insured credit default swap contracts. Because of these terms and conditions, the fair value of the ceding companies' credit derivatives may not reflect the same prices observed in an actively traded market of CDS that do not contain terms and conditions similar to those observed in the financial guaranty market. These models and the related assumptions are continuously reevaluated by the ceding companies and enhanced, as appropriate, based upon improvements in modeling techniques and availability of market information.

RAM measures the value of its derivative assets and liabilities based on an assumption that a market participant would consider the fair value information provided by the ceding companies. The assumption that a market participant would consider the fair value information provided by the ceding companies when determining the fair value of RAM's reinsurance contract makes intuitive sense given the lack of contractual rights to more detailed information about individual ceding company contracts. The primary insurers underwrite each of the transactions underlying the reinsurance contract and they have access to all the underlying data related to the transactions. In addition, they have sophisticated modeling capabilities and services (*i.e.* Loan Performance and Intex) that allow them to evaluate the performance of all of the underlying credits in a transaction. RAM also employs procedures to test the reasonableness of the mark both in process and absolute terms because we believe that an exit market participant would perform similar procedures when determining an exit price for our reinsurance contract. If it appears that the marks are consistent with macro spread movements, and general market trends and RAM believes that the modeling and assumptions that drive the modeling are reasonable (based on RAM's ceding company audits and review of publicly available information), RAM will use the mark provided by the ceding company as a key input in the determination of the fair value of reinsurance contract.

As of December 31, 2008, 2007 and 2006, included in the Company's outstanding par exposure was $5.0 billion, $11.9 billion and $5.5 billion, respectively, of credit default swaps that have been fair valued under FAS 133. These

derivative instruments had an average legal term to maturity of 18.1 years, 25.1 years and 12.5 years as of December 31, 2008, 2007 and 2006, respectively. The increase in average legal term to maturity of derivative instruments as at December 31, 2007 as compared to December 31, 2006, primarily resulted from an increase of $6.4 billion in the outstanding par amount of credit default swaps, of which approximately 33% related to Commercial Mortgage-Backed Securities with an average legal term of 43.5 years. During the year ended December 31, 2008, the Company commuted substantially all of its CMBS derivative instruments which led to the decline in the average legal term to maturity as at December 31, 2008. The average legal term to maturity as at December 31, 2008 remains higher than 2006 due to the change in mix of the Company's CDS portfolio including increased RMBS and Trust Preferred CDOs assumed by the Company in 2007. Actual maturity of credit default swaps is generally expected to be significantly less than the legal term. The Company's determination of derivative liabilities is not affected by the one-quarter lag in reporting of exposure data included in Note 12.

The following table sets forth the Company's exposure to credit derivative by major asset type as at December 31, 2008:

Asset Type[(1)]	Net Par Outstanding	Wtd. Average Credit rating[(2)]	Wtd. Average legal contract term[(3)]
	($ in millions)		
HY	$ 2,943.9	AAA	13.8
IG	420.6	AAA	7.2
MS	277.9	AAA	21.4
Other CDO	330.2	AAA	35.2
Total CDO	3,972.6		
RMBS	473.5	A	37.6
Other	599.5	A	20.6
Grand Total	$ 5,045.6		

(1) The definitions of the collateralized debt obligation ("CDO") types in the above table are as follows:
IG – Investment grade corporate (predominantly corporate, may include limited ABS)
HY – Non-investment grade corporates, predominantly CLOs backed by corporate loans
MS – Multi-sector collateral, which may include MBS (including subprime), ABS, CDOs, CMBS and other asset-backed securities

(2) RAM Re ratings are current as of February 27, 2009. These ratings are assigned by RAM Re based on management's judgment and take into consideration the ratings assigned by the ceding companies and the rating agencies. RAM Re undertakes no obligation to update its ratings, and such ratings do not constitute investment advice.

(3) Actual maturity of credit default swaps is generally expected to be significantly less than the legal term.

The Company's credit default swap policies are not readily tradable as there is no active market for them. Therefore, the Company views its principal market as the financial guaranty insurance and reinsurance market, whose participants would hypothetically be able to assume this business if the Company were to hypothetically transfer a policy.

In compliance with the requirements of FAS 157, the Company considered its own non-performance risk when measuring the fair value of a liability. An adjustment to these valuations is needed to reflect RAM's own non performance risk in the measurement of the fair value of these liabilities.

There is no observable credit spread for RAM Re or RAM Holdings, and as such there is inherently a significant amount of judgment, subjectivity and uncertainty involved in the estimation of the adjustment for RAM's non performance risk. Management has used inputs that reflect assumptions market participants may use in pricing RAM's creditworthiness. In determining the Company's own non-performance risk when measuring the fair value of a liability, the Company uses an implied market price for buying credit protection on RAM and a cash flow model, which models a CDS contract, to calculate a value price based on those spreads and cash flows. The Company identifies comparable entities with active CDS markets to estimate credit spreads for RAM. Such identification focuses on the nature of risk positions (primarily public finance and structured products) and of approximate capital adequacy as depicted by publicly available credit ratings agencies reports. Based on this information, as at December 31, 2008, the Company estimated its credit spread to be approximately 2254 basis points. An approximation of a CDS contract is made based on a 5-year insured CDS contract, an assumption of a 10 year weighted average life, and an assumption for par, coupon, duration and the appropriate discount rate based on a 5-year swap rate. The Company believes that these data points may be considered by hypothetical market

participants in determining RAM's creditworthiness. The effect of applying this requirement of FAS 157 was a reduction in the Company's derivative liability at December 31, 2008 of approximately $203.3 million.

As noted above, this calculation is based on estimates, involves a significant degree of management judgment and is sensitive to selected assumptions. Changes to the assumptions used in this valuation could lead to materially different results. For example, a change in RAM's estimated spread would have a significant impact on the amount of the adjustment for RAM's own non-performance risk. Adjustments to RAM's non-performance risk will be recorded in the periods in which they become known or estimable by the Company.

The following table summarizes the estimated changes in fair value of our credit derivatives assuming immediate changes in the Company's non performance credit risk at specified levels at December 31, 2008:

Change in Credit Spreads	Estimated Net Fair Value of Derivative Liability	Impact of Change on Net Income
	($ in millions)	
1000 basis point narrowing	$ (150.7)	$ (65.3)
500 basis point narrowing	(111.4)	(26.0)
100 basis point narrowing	(89.9)	(4.5)
Base scenario	(85.4)	—
100 basis point widening	(81.3)	4.1
500 basis point widening	(67.8)	17.6
1000 basis point widening	(55.5)	29.9

The Company believes that the above data points are hypothetical with the spread movements used in the sensitivity analysis of 100, 500, and 1000 basis points supported by previous large spread changes that have occurred in the last year in our primaries' spreads. Therefore, it is not unreasonable for RAM to use these spread movements in the sensitivity analysis. This calculation is based on estimates, involves a significant degree of management judgment and is sensitive to selected assumptions. Changes to assumptions used in this valuation could lead to materially different results.

The following table sets forth the Company's derivative liabilities that were accounted for at fair value as of December 31, 2008 by level within the fair value hierarchy. As required by FAS 157, items are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Total	Level 1	Level 2	Level 3
Derivative liabilities	$ 85,353,670	$ —	$ —	$ 85,353,670

Our credit derivative policies are classified as Level 3 in the above fair value hierarchy since the inputs provided to us by our ceding companies and our own non-performance risk adjustments are from valuation models which place reliance on at least one significant unobservable input. Consistent with the requirements of FAS 157, we believe these models use observable market data when available.

The following table presents changes in the net credit derivative liabilities balance for which fair value was measured under Level 3 for the year ended December 31, 2008:

Fair value measurement using significant unobservable inputs (Level 3)

	Year Ended December 31, 2008
Balance, beginning of period	$ (180,588,918)
Total unrealized gains included in earnings	94,288,456
Total realized gains included in earnings	946,792
Purchases, issuances and settlements	—
Transfers in and/or out of Level 3	—
Balance, December 31, 2008	$ (85,353,670)

5 MAJOR CUSTOMERS AND COMPETITORS

Our customers through December 31, 2007 were the primary monoline financial guaranty insurers and in some cases, reinsurers, namely Ambac Assurance Corporation, or Ambac, Assured Guaranty Corp., or Assured Guaranty, CIFG IXIS Financial Guaranty North America, Inc., or CIFG, Financial Guaranty Insurance Company, or FGIC, Financial Security Assurance Inc., or FSA, MBIA Insurance Corporation, or MBIA, and Syncora Guaranty Re Ltd. (formerly XL Financial Assurance Ltd.) and Syncora Guaranty Inc. (formerly XL Capital Assurance Inc.).

In 2008, we renewed our treaty reinsurance agreements with Assured Guaranty and FSA but either cancelled or did not renew our treaty reinsurance agreements with our other customers, due to the downgrades of our customers. During 2008, Assured Guaranty and FSA accounted for substantially all of the new business assumed by us under our treaties. We have not renewed our reinsurance treaties with any of the primaries in 2009 and we do not expect to write any new financial guaranty business in the near term. This means that we do not expect to write any financial guaranty reinsurance in the current year but this does not reduce our in-force business, unless the business is commuted or recaptured by the primaries.

We commuted our entire insured portfolio assumed from Syncora Guaranty Re Ltd. and MBIA effective July 25, 2008 and November 30, 2008, respectively (see Note 16 Commutations). As a result, substantially our entire insured portfolio outstanding as of December 31, 2008 consists of business assumed from Ambac, Assured Guaranty, FGIC, and FSA. Subsequent to year end, effective April 8, 2009, we commuted our entire insured portfolio assumed from Ambac. See Note 27, "Subsequent Events."

Our business consists of a single operating segment, financial guaranty reinsurance, the purpose of which is to indemnify a primary financial guarantor, referred to as the primary insurer or "ceding company", against the portion of any loss it may sustain under financial guaranty policies it has ceded to us. We reinsure policies covering both U.S. and international exposures. Through 2008, we marketed our reinsurance directly through the execution of treaty and facultative contracts with primary insurers.

Primary financial guaranty companies choose reinsurance providers based upon several factors, including overall financial strength, financial strength ratings by the major rating agencies, single-risk capacity, and, to a lesser extent, level of service quality and whether or not the reinsurer competes with the primary company. There has been limited demand for reinsurance on new business since late 2007, and reinsurance activity in 2008 consisted primarily of transactions in which the primaries reinsured substantial portions of their existing insured portfolio of public finance transactions for regulatory capital purposes. Primaries with excess capital for their current ratings were the only reinsurers of these portfolio transactions. We did not compete for these transactions because we did not have sufficient capacity for these large transactions. We are not currently competing in the financial guaranty reinsurance market and we believe that Assured Guaranty Re is our only historical competitor that continues to compete in this market.

6 (LOSS)/EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share shows the dilutive effect of all stock options and restricted stock units outstanding during the period that could potentially result in the issuance of common shares. The calculation of diluted loss per share excludes the dilutive effect of stock options and restricted stock awards outstanding because it would otherwise have an anti-dilutive effect on net loss per share. As of December 31, 2008, 2007 and 2006, there were 2,116,497, 1,252,197 and Nil, respectively, of stock options excluded from the diluted earnings per share calculation because they were anti-dilutive. At December 31, 2008, 2007 and 2006, all restricted stock units outstanding were anti-dilutive and therefore excluded from the diluted earnings per share calculations.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Net (loss) income	$ (159,459,151)	$ (144,119,582)	$ 41,052,840
Basic weighted-average shares	27,249,220	27,237,481	26,787,221
Effect of stock options	—	—	56,362
Diluted weighted-average shares	27,249,220	27,237,481	26,843,583
Basic (loss)/earnings per share	$ (5.85)	$ (5.29)	$ 1.53
Diluted (loss)/earnings per share	$ (5.85)	$ (5.29)	$ 1.53

7 INVESTMENTS

The amortized cost and estimated fair value of investments at December 31, 2008 and 2007 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2008:				
Fixed interest securities:				
Agencies	$ 34,271,931	$ 3,123,576	$ —	$ 37,395,507
U.S. government obligations	89,929,540	14,131,326	—	104,060,866
Corporate debt securities	97,243,419	649,301	4,436,884	93,455,836
Municipal securities	46,995,309	1,214,685	347,136	47,862,858
Mortgage and asset-backed securities	147,118,553	1,781,322	9,784,694	139,115,181
Total	$ 415,558,752	$ 20,900,210	$ 14,568,714	$ 421,890,248

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2007:				
Fixed interest securities:				
Agencies	$ 169,873,681	$ 5,821,768	$ 70,773	$ 175,624,676
U.S. government obligations	70,392,594	2,877,822	—	73,270,416
Corporate debt securities	123,559,444	2,616,974	2,184,508	123,991,910
Municipal securities	16,703,634	1,034,683	11,284	17,727,033
Mortgage and asset-backed securities	305,115,601	2,605,015	1,801,871	305,918,745
Total	$ 685,644,954	$ 14,956,262	$ 4,068,436	$ 696,532,780

The Company did not have an aggregate investment in a single entity, other than the U.S. Treasury securities, in excess of 10% of total investments at December 31, 2008 and 2007.

The investments that have unrealized loss positions as of December 31, 2008 and 2007, aggregated by investment category and the length of time they have been in a continued unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2008:						
Fixed income securities						
Agencies	$ —	$ —	$ —	$ —	$ —	$ —
U.S. government obligations	—	—	—	—	—	—
Corporate debt securities	39,994,277	2,329,422	10,937,059	2,107,462	50,931,336	4,436,884
Municipal securities	10,862,873	347,136	—	—	10,862,873	347,136
Mortgage and asset-backed securities	61,019,974	7,896,072	12,840,269	1,888,622	73,860,243	9,784,694
Total temporarily impaired securities	$111,877,124	$ 10,572,630	$ 23,777,328	$ 3,996,084	$135,654,452	$ 14,568,714
2007:						
Fixed income securities						
Agencies	$ —	$ —	$ 12,818,236	$ 70,773	$ 12,818,236	$ 70,773
U.S. government obligations	—	—	—	—	—	—
Corporate debt securities	11,098,200	96,030	74,991,556	2,088,478	86,089,756	2,184,508
Municipal securities	1,388,716	11,284	—	—	1,388,716	11,284
Mortgage and asset-backed securities	8,135,608	28,230	117,044,250	1,773,641	125,179,858	1,801,871

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Total temporarily impaired securities	$ 20,622,524	$ 135,544	$204,854,042	$ 3,932,892	$225,476,566	$ 4,068,436

As of December 31, 2008, 48 out of 151 securities were in unrealized loss positions compared to 71 out of 168 securities as of December 31, 2007. As at December 31, 2008 the Company's gross unrealized loss position was $14.6 million compared to $4.1 million at December 31, 2007. The increase is primarily related to increases of $2.3 million and $8.0 million in corporate securities and mortgage and asset-backed securities, respectively. The increase in the unrealized losses as at December 31, 2008 is primarily attributable to the market reaction to corporate bonds and the current economic climate, and therefore management does not believe these investments to be other than temporarily impaired and intends to hold these investments until recovery. The investments held by the Company are considered to be available-for-sale but the Company has the ability and the intent to hold these investments until the security recovers its value, or to their contractual maturity. Unrealized gains and losses relating to investments are currently recorded in accumulated other comprehensive (loss)/income in shareholders' equity as the Company generally holds these investments to maturity. The unrealized gains and losses are expected to decrease as the investment approaches maturity and the Company expects to realize a value substantially equal to amortized cost.

The amortized cost and estimated fair value of fixed interest securities classified as available for sale as of December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
2008		
Less than one year	$ 28,973,849	$ 29,146,866
Due after one year through five years	99,044,483	98,545,240
Due after five years through ten years	61,002,645	66,739,690
Due after ten years	79,419,222	88,343,271
Mortgage and asset-backed securities	147,118,553	139,115,181
Total	$ 415,558,752	$ 421,890,248

Proceeds from maturities and sales of investments in fixed interest securities available for sale during 2008, 2007, and 2006 were $517,447,080, $128,096,094, and $118,996,819 respectively. Gross gains of $10,252,643, $6,007 and $nil in 2008, 2007, and 2006, respectively, and gross losses of $2,140,491, $10,227, and $1,002,055 in 2008, 2007, and 2006, respectively, were realized on those sales.

During the year ended December 31, 2008, the Company recognized other than temporary impairments of $10.5 million. The Company recognized an additional $2.2 million ($3.6 million during 2007) relating to an investment with subprime exposure, and the fair value of this investment was $0.2 million at December 31, 2008. The Company had a second investment with subprime exposure on which it realized a $0.1 million loss in 2008 and the fair value of this investment at December 31, 2008 was $0.2 million. Two other securities have been other than temporarily impaired during the year. These were corporate bonds that realized a total of $8.2 million of losses and the combined fair value of these investments at December 31, 2008 was $0.9 million. The company has no material investments in securities guaranteed by third parties and has no direct investments in financial guarantors as at December 31, 2008 and 2007.

Major categories of net investment income are summarized as follows:

	2008	2007	2006
Interest from debt securities and cash equivalents	$ 31,287,276	$ 33,684,707	$ 24,530,389
Net foreign exchange (losses)/gains	(51,321)	37,928	59,951
Pension plan (losses)/gains	(1,033,612)	317,205	412,220
Investment expense	(895,594)	(891,300)	(766,458)
Net investment income	$ 29,306,749	$ 33,148,540	$ 24,236,102

8 REINSURANCE

On July 1, 2005, the Company entered into a retrocession agreement with a "AA" rated financial guaranty company, which has subsequently been downgraded to Ba1 by Moody's and BBB- by S&P, to retrocede certain business that exceeds its single-risk limits on a facultative basis, thereby limiting its exposure to loss from large individual risks. This retrocessional agreement does not relieve RAM Re from its obligation to the reinsured. The retrocessional agreement requires an annual minimum of $1.0 million written premiums or $750,000 in premiums written and $1.5 million of adjusted gross premiums (a non GAAP measure of business assumed during a period) on installment transactions. As at December 31, 2008, the Company has complied with these requirements for 2008. This agreement has been terminated on a "run-off" basis effective December 31, 2008. As a result of the downgrade of the retrocessionaire, the Company has the right to terminate the agreement on a "cutoff" basis and recapture all the policies previously ceded. The Company has not exercised this right as of April 13, 2009. As at December 31, 2008, there were no established losses recoverable on the retroceded business.

9 CONTINGENT CAPITAL AND CREDIT FACILITIES

As of December 31, 2008 and 2007, RAM Re has contingent capital and credit facilities totaling $180 million, the details of which are discussed in the following:

As of December 31, 2008 and 2007, the Company maintained a $90.0 million credit facility with major commercial banks. The facility may be drawn upon by the Company if cumulative losses exceed certain minimum thresholds in respect of cumulative losses on public finance bonds and, in a limited capacity, asset-backed securities reinsured by the Company. Loan obligations under this facility have limited recourse and would be repayable from, and collateralized by, a pledge of recoveries realized on defaulted reinsured obligations covered by the facility, including certain installment premiums and other collateral. The facility, which contains an annual extension provision subject to approval by the banks, was not extended for an additional year on May 11, 2008. The facility has a term ending on May 11, 2015. As of December 31, 2008 and 2007, no amounts were outstanding nor have there been any borrowings under this facility.

As of December 31, 2008 and 2007, the Company also maintained a second $40.0 million contingent capital facility with two highly rated commercial banks. This facility is essentially the same as the $90.0 million contingent capital facility described above although it may be drawn upon only to cover catastrophic losses, exceeding the minimum threshold, from public finance obligations reinsured by RAM Re. Loan obligations under this facility also have limited recourse and are repayable from, and collateralized by, a pledge of recoveries realized on defaulted reinsured obligations covered by this facility, including certain installment premiums and other collateral, on a subordinate basis to the pledge made to secure the $90.0 million facility described above. The $40.0 million facility has an annual extension feature, subject to approval of the lenders, and was not extended for an additional year on February 3, 2008. The facility has a term ending on February 3, 2014. As of December 31, 2008 and 2007, no amounts were outstanding nor have there been any borrowings under this facility.

On December 23, 2003, RAM Re entered into a $50.0 million soft capital facility whereby it was granted the right to exercise perpetual put options in respect of its Class B preference shares against the counterparty to the option agreement, in return for which it paid the counterparty a floating put option fee through February 17, 2009. The counterparty was a trust established by an investment bank. The trust was created as a vehicle for providing capital support to RAM Re by allowing it to obtain, at its discretion and subject to the terms of the option agreement, access to new capital through the exercise of a put option and the subsequent purchase by the trust of RAM Re preference shares. In the years ended December 31, 2008, 2007 and 2006, $1.6 million, $0.8 million and $0.5 million, respectively, of expenses relating to the operation of this facility were paid. As of December 31, 2008, the put option had not been exercised. Subsequent to December 31, 2008, on February 17, 2009, RAM Re exercised the put option in the soft capital facility and issued 500.01 Class B preference shares to the trust in exchange for $50,001,000 of proceeds. On March 16, 2009, RAM Re elected to pay a fixed rate dividend on the Class B preference shares, as a result of which the Class B preference shares were distributed to the holders of the trust's securities and the trust is now in the process of dissolution. As a result of the fixed rate election, dividends are payable on the Class B preference shares every 90 days at a rate of 6.276%. The Class B preference shares give investors the rights of an equity investor in RAM Re. Such rights are subordinate to insurance claims, as well as the

general unsecured creditors of RAM Re. Dividends on the Class B preference shares are cumulative, only if RAM Re pays dividends on its common shares without paying accrued and unpaid dividends on the Class B preference shares. The Class B preference shares are rated 'BBB' by S&P. As of the date of filing of this Form 10-K, Moody's has not assigned a rating to the Class B preference shares. RAM Re has the option to redeem the Class B preference shares, subject to certain specified terms and conditions. The fair value of the put option at the exercise date was $41.9 million and therefore the value of the preference shares will be $8.1 million, being the difference between the proceeds received and the fair value of the put option on the date of exercise.

10 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments under FAS 157

Effective January 1, 2008, the Company adopted FAS 157. FAS 157 establishes a hierarchy of inputs in measuring fair value, with the highest level being observable inputs and the lowest being unobservable data, with the standard requiring that the use of observable inputs is maximized (see Note 4 Derivative Instruments for a description of each of the three levels). The following table presents the fair value measurement levels for assets and liabilities, which the Company has recorded at fair value as of December 31, 2008. As required by FAS 157, items are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Total	Level 1	Level 2	Level 3
Financial Assets:				
Fixed maturity investments	$ 421,890,248	$ 100,160,253	$ 321,519,872	$ 210,123
Cash and cash equivalents	8,763,063	8,763,063	—	—
Restricted cash	8,284,458	8,284,458	—	—
Other financial instruments	43,083,370	—	—	43,083,370
% of assets at fair value	**100%**	**24%**	**67%**	**9%**
Financial Liabilities:				
Derivative liabilities[1]	$ 85,353,670	$ —	$ —	$ 85,353,670
% of liabilities at fair value	**100%**	**—**	**—**	**100%**

(1) See Note 4 Derivative Instruments for further disclosures on the application of FAS 157 to the Company's derivative liabilities.

The Company's fair values of fixed maturity and short-term investments are based on prices obtained from nationally recognized independent pricing services. Where available, the prices are obtained from market quotations in active markets. Where there is no quoted price for an identical security, then the pricing service may use matrix pricing or model processes, such as the option adjusted spread model, to estimate the fair value of a security. The matrix pricing or model processes consist primarily of observable inputs, which may include; benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The Company receives at least one fair value price for each of its investment securities and has not adjusted any of the prices received from the pricing services.

At December 31, 2008, all but one of the Company's investments were valued using the independent pricing services. One security, which had a fair value of $0.2 million, has no active market and includes subprime exposure, was valued using a non-binding broker quote. This security is included within level 3 in the fair value hierarchy.

As management is ultimately responsible for determining the fair value measurements for all securities, the Company assesses the reasonableness of the fair values received by comparing them to other pricing information readily available and management's knowledge of the current markets. The Company also assesses the pricing methodologies and related inputs used by the pricing services to estimate fair value. Any prices that, in managements' opinion, may not be representative of fair value are challenged with the pricing service. Based on the information obtained from the above reviews, the Company evaluated the fixed income securities in the investment portfolio to determine the appropriate FAS 157 fair value hierarchy level based on trading activity and observability of inputs. Based on the Company's evaluation, each security was classified as Level 1, 2, or 3. Prices on money market funds and US treasuries were classified as Level 1, prices with observable market inputs were classified as Level 2, and valuations with no significant observable inputs were classified as Level 3 as of December 31, 2008.

At January 1, 2008, two securities within the Company's fixed maturity portfolio were valued using unobservable inputs, therefore the valuations were assessed as Level 3. During the year ended December 31, 2008, one of these

securities fully paid down and therefore only one security is included in the level 3 classification at December 31, 2008. The following table presents the fixed maturity investments for which fair value was measured under Level 3 for the year to December 31, 2008:

Fair value measurement using significant unobservable inputs (Level 3)

	Year Ended December 31, 2008
Balance, beginning of period	$ 3,847,504
Total realized losses included in earnings	(1,962,476)
Total unrealized losses included in other comprehensive income	(4,061)
Purchases, issuances and settlements	(1,670,844)
Transfers in and/or out of Level 3	—
Balance, December 31, 2008	$ 210,123

The Company's fair value on Other Financial Instruments relates to the put option on the Company's preference share soft capital facility, which represents the value to the Company in the current market environment. The put option is a financial instrument and is required to be fair valued. As at December 31, 2008, the unrealized gain on this put option was $43.1 million and is included in other financial instruments on the consolidated balance sheet. The unrealized gain on this financial instrument was $35.3 million at December 31, 2007. The movement in fair value of $7.8 million for the year ended December 31, 2008 is included as an unrealized gain on other financial instruments in the statement of operations. Valuations are based on unobservable inputs including assumptions over the Company's performance and future outlook, the facility, the current market conditions, and other similar instruments in the market. Assumptions include the current rate paid for the facility (LIBOR plus 300 bps at December 31, 2008), the term of the facility and the Company's rating, along with judgmental factors such as the market perception of the facility and the Company.

The following table presents the Other Financial Instruments for which fair value was measured under Level 3 for the year ended December 31, 2008:

Fair value measurement using significant unobservable inputs (Level 3)

	Year Ended December 31, 2008
Balance, beginning of period	$ 35,330,000
Total unrealized gains included in earnings	7,753,370
Purchases, issuances and settlements	—
Transfers in and/or out of Level 3	—
Balance, December 31, 2008	$ 43,083,370

Since, as of December 31, 2008, there is no active market for the put option and due to the significant number of the unobservable inputs used in the valuation, the put option valuation was classified as a Level 3 fair value measurement.

Other fair value disclosures

Management has estimated the fair value of certain financial instruments based upon market information using appropriate valuation methodologies.

The carrying amounts of cash and cash equivalents, interest and premiums receivable, other assets, accounts payable and accrued liabilities and other liabilities are considered reasonable estimates of their fair values.

As of December 31, 2008, the fair value of the Company's $75.0 million redeemable preference shares was approximately $10.4 million. The fair values of the Company's long-term debt is estimated to be approximately $12 million. Accrued interest payable is assumed to approximate carrying value.

The carrying amount of unearned premiums represents the Company's future earned premium revenue on policies where the premium was received at the inception of the policy and the risk is not yet expired. The fair value of the unearned premiums is the value the Company would receive as the Company's market would be the ceding company from which we originally assumed the business; we perceive the market value to approximate the carrying value. For installment premiums, consistent with industry practice, there is no carrying amount since the Company will receive premiums on an installment basis over the term of the reinsurance contract. Similar to the treatment of unearned premiums, the fair value of installment premiums is estimated as the present value of the future contractual premiums that are expected to be received under a reinsurance agreement. The present value of future installment premiums, discounted at a rate of 3.00% and 4.26%, was $120.2 million and $234.2 million at December 31, 2008 and 2007, respectively.

11 LOSSES AND LOSS EXPENSE RESERVE

The Company's liability for losses and loss adjustment expenses consists of case-basis loss reserves and an unallocated reserve. Movement in the provision for losses and loss adjustment expenses is summarized as follows:

	2008	2007	2006
Case-basis loss reserves:			
Balance – Beginning of year	$ 30,447,036	$ 3,009,524	$ 6,257,286
Less: Recoverables on paid losses	(1,807,9410)	(915,900)	(1,279,503)
Net balance – Beginning of year	28,639,095	2,093,624	4,977,783
Additions to case-basis reserves related to:			
Current year	—	8,036,791	—
Prior years	234,171,794	18,134,969	(3,939,903)
Total additions to case reserves	234,171,794	26,171,760	(3,939,903)
Net losses paid related to:			
Current year	—	—	—
Prior years	182,820,511	(373,711)	(1,055,744)
Total paid	182,820,511	(373,711)	(1,055,744)
Net balance – End of year	79,990,378	28,639,095	2,093,624
Add: Recoverables on paid losses	1,796,842	1,807,941	915,900
Balance – End of year	81,787,220	30,447,036	3,009,524
Unallocated loss reserve:			
Balance – Beginning of year	33,350,708	11,496,254	10,337,582
Net provision for unallocated reserves established	4,189,200	21,854,454	1,158,672
Transfers to case reserves	(23,532,874)	—	—
Balance – End of year	14,007,034	33,350,708	11,496,254
Total losses and loss expense reserve	$ 95,794,254	$ 63,797,744	$ 14,505,778

The deterioration in the US residential mortgage markets has resulted in the establishment of a significant amount of case-basis loss reserves being recorded on the policies that have defaulted or have a high probability of defaulting. Additions to case-basis reserves of $234.2 million in 2008, $26.2 million in 2007, and ($3.9) million in 2006 represent the Company's proportionate share of loss reserves established by ceding companies and are based on notification by ceding companies and the judgment of management. The net unallocated reserve increase of $4.2 million in 2008 includes (i) additional calculated amounts of $26.5 million relating to US residential mortgage-backed securities ("RMBS") exposure where the development of a default is probable and $7.1 million on other structured finance products, offset by (ii) a decrease in par of the inforce insured portfolio primarily as a result of the commutations during the year (see Note 16). During the year ended December 31, 2008, $23.5 million was transferred from unallocated to case reserves. The company has insured par relating to US RMBS exposure of $1.3 billion, of which $445.3 million has case reserves amounting to $48.7 million at December 31, 2008. RMBS exposure includes obligations backed by Alt-A, subprime, closed-end second mortgage loans and home equity lines of credit. The Company's estimate of loss reserves related to RMBS exposure represent management's best estimate of total losses for these exposures but actual losses may differ materially from these estimates. The Company continues to monitor the performance of these exposures and will update estimates of loss as new information reflecting future performance is available. The increase of the unallocated reserve of $21.9 million in 2007 is partially due to the increase in exposure reinsured by the Company as well as an additional calculated amount of $15.6 million relating to residential mortgage-backed securities ("RMBS") exposure where the development of a default is probable but the actual loss has not been specifically identified. The increase of the

unallocated reserve of $1.2 million in 2006 are due primarily to the combination of increased exposures reinsured by the Company in the ordinary course of business and changes in unallocated reserve factors applied in estimating the unallocated loss reserve.

Individual primaries began recording these remediation benefits in their case reserves in mid-2008, with all of our ceding companies recording remediation benefits at year end. Prior to the fourth quarter we did not have access to sufficient information to assess the reliability of the remediation benefits ceded by the primaries. In the fourth quarter, we began to record our *pro rata* share of the remediation benefits in the ceded case reserves as a result of additional supporting information received from the primaries,

As of December 31, 2008 the Company gave credit of $28.8 million in its case reserves for the benefit of expected recoveries in 18 RMBS transactions resulting from required repurchases by the originators due to contractual breaches of representations and warranties in the RMBS securitization agreements. The $28.8 million of credit given matches the credit reported to the Company by the primaries. The primaries performed detailed examinations of sampled RMBS loan files to determine whether the loans conformed to the representation and warranties made by the originators. The sampled loans were either in later stages of delinquency or had been charged off. Those loans that showed a material breach of representations and warranties are in the process of being put-back to the originators for repurchase. All of the primaries have stated that they intend to vigorously pursue enforcement of the contractual repurchase obligations of the originators. The Company views the obligation to repurchase as a standard provision of RMBS securitizations that has been enforced for many years. Thus the Company views the inclusion of remediation credit taken by the primaries in its case reserves to be probable and estimable and has assumed its proportionate share of the credit given by the primaries when establishing its case reserves.

To determine the adequacy of its aggregate reserves, the Company considers the case reserves established by its ceding companies for the exposures it has reinsured as well as the methodologies used by the ceding companies to calculate such ceded case reserves. When the ceding companies provide additional non-case-basis reserves associated with ceded exposures, the Company also takes these reserves into consideration and is generally included in our unallocated loss reserves if not already included in our case reserves. To further evaluate the ceded reserve amounts established by the ceding companies, the Company uses its own loss forecasting methodology. For RMBS, the Company takes into account the first loss protective features inherent in the structure of the insured exposure, collateral losses to date, current delinquency rates and loan product characteristics such as loan-to-value ratio and credit score. The first-loss protection in most of the Company's RMBS transactions is provided by excess spread, overcollateralization, subordination, and in some cases mortgage pool insurance.

For RMBS, the Company's loss reserving methodology assumes that all 90+ day delinquent loans are liquidated, and the loss severity for these loans is equal to 100% for second liens, 55% for subprime and 45% for Alt-A and Prime loans, while the remainder of the collateral pool experiences losses based on loss assumptions determined by the vintage year in the case of Home Equity Lines of Credit (HELOCs), Subprime, Alt-A and prime mortgages. Borrower credit quality is also considered in the case of Closed-End Seconds (CES). Correlation is not one of the inputs in our loss reserving methodology for RMBS.

The following table sets forth the general guidelines the Company uses for our remaining loss assumptions (expressed as a percent of the outstanding principal balance of loans less than 90 days delinquent) for 2005-2007 vintage US RMBS. Our exposures to US RMBS vintages from earlier vintages have minimal case reserves and are therefore analyzed using different assumptions applied on a case-by-case basis.

Product	**Borrower Credit**	**2005 Vintage**	**2006 Vintage**	**2007 Vintage**
HELOC	NA	15.0	25.0	30.0
Subprime	NA	6.0	15.0	25.0
CES	Good	6.0	20.0	35.0
CES	Fair	10.0	NA	40.0
CES	Poor	NA	NA	70.0
Alt-A	NA	12.0	18.0	18.0
Prime	NA	8.5	8.5	12.0

Our risk management staff reviews each transaction and may make adjustments to the above assumptions depending on the information provided by the primaries and the historical performance of each transaction. Other key

assumptions include the spread between the prime rate and 1-month LIBOR for HELOC transactions, which is assumed to be fixed at 240 basis points, and the remaining average life of the collateral pool, which is generally assumed to be four years.

The following table summarizes the subordination and overcollateralization ("OC") in the Company's 2005-2007 US RMBS exposures by product type and vintage. The severity of loss (or loss given default) is the Company's lifetime severity assumption. The table also sets forth the mortgage collateral lifetime default and cumulative lifetime loss rates that result from our modeling methodology, our assumptions and the performance to date of our exposures.

Product Type	Vintage	Remaining Subordination and OC[(1)]	Lifetime Default Rate[(2)]	Severity of Loss	Cum. Lifetime Loss[(2)]
HELOC	2005	2.0%	9.8%	100%	9.8%
HELOC	2006	0.3%	27.6%	100%	27.6%
HELOC	2007	6.3%	32.9%	100%	32.9%
CES	2005	19.2%	16.2%	100%	16.2%
CES	2006	0.5%	30.4%	100%	30.4%
CES	2007	2.5%	42.7%	100%	42.7%
Subprime	2005	11.3%	18.1%	55%	10.0%
Subprime	2006	36.1%	25.3%	55%	13.9%
Subprime	2007	12.7%	50.4%	55%	27.7%
Alt-A	2005	25.6%	29.9%	45%	13.5%
Alt-A	2006	48.4%	50.2%	45%	22.6%
Alt-A	2007	14.4%	35.7%	45%	16.1%
Prime	2005	38.1%	14.1%	45%	6.3%
Prime	2006	12.4%	22.4%	45%	10.1%
Prime	2007	13.0%	28.8%	45%	12.9%

(1) Percent of current outstanding collateral balance.
(2) Percent of original collateral balance.

If the Company's remaining loss assumption is increased by 25% over our current assumptions (which approximates the effect of estimated peak monthly default rates continuing for an additional six months beyond the Company's current nine-month assumption for second liens and 24-month assumption for first liens), we estimate the addition to our total loss and LAE reserve for 2005-2007 vintage US RMBS would be approximately $31.9 million. Management believes extending the peak default rate by 6 months is representative of a typical stress scenario and a prolonged recession period. Such estimated increase assumes our current remediation recovery estimates remain constant; however, our actual remediation recoveries could be lower than our current estimates if the sponsors of these transactions either: i) fail to honor their obligations to repurchase the mortgage loans; ii) successfully dispute the primaries' breach findings; or iii) no longer have the financial means to fully satisfy their obligations under the transaction documents. In addition, such estimated increase does not include the effect of the stress scenario on approximately $89.1 million par outstanding of 2005-2007 vintage RMBS for which the Company has insufficient data to perform this analysis.

The Company believes that it is appropriate to determine its total loss and LAE reserves using the loss and LAE reserves ceded by the ceding companies as a key input and the analysis performed by the Company, which validates or results in adjustments to the ceding company reserves. Although the Company believes its methodology for determining loss reserves is appropriate, there can be no assurance that actual, ultimate losses will not be higher or lower than the Company's reserves. The ultimate performance of the Company's RMBS transactions remains highly uncertain and may be subject to considerable volatility due to the influence of many factors, including the level and timing of loan defaults, changes in housing prices and other variables.

RAM primarily identifies problem credits through information provided by the primary insurers at least on a quarterly basis. Such information generally consists of surveillance and underwriting reports and quarterly conference calls with the primary ceding companies' analysts. The Risk Management staff supplements this input with their own research to identify and assess the status of individual credits. Research performed includes reviews of rating agency and fixed income research publications and analysis of historical performance data. Each of the ceding companies maintains a "watch list" for credits that have been identified as requiring greater than the usual level of ongoing scrutiny and/or intervention. The ceding companies notify us when any transaction they have

reinsured has been placed on such a watch list. The Management Committee is comprised of RAM's senior officers and meets quarterly to formally review the Company's Watch List and approve case and unallocated reserves.

RAM maintains its own Watch List to identify those transactions requiring increased monitoring. The Company typically places transactions on the Watch List if the ceding company places a transaction on its watch list, and RAM generally employs a mapping of each watch list category of each primary insurer to the Company's own Watch List categories. Risk Management surveys market segments on an as-needed basis based on market trends, and may add transactions to the Watch List as a result of such survey even if the ceding company has not added the transaction to its watch list.

Transactions on the Watch List are divided into four categories generally based upon the following definitions. Category 1 includes transactions for which performance of the issue or that of an issuance participant is sufficiently below expectations where increased monitoring is required; however, the risk of loss remains remote. Category 2 transactions include those for which performance of an issue or that of an issuance participant is sufficiently below expectations where increased monitoring is required and remedial intervention by the ceding company is either planned or already in progress. Performance issues occur when the performance of an issue does not stabilize or improve over the intermediate term and concerns about the transaction's ability to meet its debt service obligations may arise. If performance has deteriorated to the point where concerns about the issuer's continued ability to meet debt service requirements on a timely basis are substantial, such transaction would be classified as a Category 3 transaction. Category 3 includes transactions where claims have been paid but recoveries are forecast for the claims. Category 4 transactions include those for which claims or loss adjustment expense payments are likely. Designation of a transaction as Category 4 generally coincides with the establishment of a case-basis loss reserve. Each transaction in Category 3 or 4 of the Watch List is generally reviewed quarterly to determine whether material changes are noted by the ceding company or by the Risk Management staff. If material adverse changes are identified, surveillance reports are requested from the ceding company and discussions are held to assess the deterioration and outlook for the credit.

RAM's Management Committee establishes reserves that it believes are adequate to cover the present value of ultimate liability for losses and loss adjustment expenses. These reserves are based on estimates and may vary materially from actual results. Adjustments based on actual loss experience are recorded in the periods in which they become known.

RAM does not perform loss mitigation activities and instead relies on the loss mitigation efforts of the ceding companies, who report RAM's proportionate share of the expenses incurred and liability for such activities. RAM pays the ceding companies a ceding commission for all policies reinsured. The ceding commission represents RAM's portion of the cost to the ceding companies to write the transaction, perform ongoing surveillance and engage in loss mitigation activities. Ceding commissions are deferred and expensed as each policy's exposure matures and is included as an asset in deferred policy acquisition costs and as acquisition expenses in the statement of operations. RAM reports loss expenses associated with claims as a liability in loss reserves on the balance sheet and in loss and loss adjustment expenses of the statement of operations.

The following table provides information about the financial guaranty policies and related loss reserves in each of RAM's Watch List categories as of December 31, 2008:

	Surveillance Categories				
($ in millions)	**Category 1**	**Category 2**	**Category 3**	**Category 4**	**Total**
Number of policies	55	31	36	71	193
Remaining weighted average contract period (in yrs)	20	22	24	25	23
Insured contractual payments outstanding:					
Principal	$ 401.3	$ 496.3	$ 178.7	$ 633.0	$ 1,709.3
Interest	$ 268.2	$ 466.7	$ 48.7	$ 342.1	$ 1,125.6
Total	$ 669.5	$ 963.0	$ 227.4	$ 975.1	$ 2,834.9
Gross claim liability	$ —	$ —	$ 19.8	$ 184.4	$ 204.2
Less:					
Gross potential recoveries	$ —	$ —	$ (21.9)	$ (38.1)	$ (59.9)
Discount, net	$ —	$ —	$ 0.3	$ (64.5)	$ (64.2)

($ in millions)	Surveillance Categories									
	Category 1		Category 2		Category 3		Category 4		Total	
Net claim liability	$	—	$	—	$	(1.8)	$	81.8	$	80.0
Unearned premium revenue	$	6.6	$	0.1	$	0.3	$	2.5	$	9.4
Net claim liability reported in the balance sheet									$	80.0
Reinsurance recoverables		—		—		—		—		—

The above table includes all financial guarantee contracts on the Company's Watch List at December 31, 2008. Policies written in credit derivative form are not included in the above table.

12 OUTSTANDING EXPOSURE

Financial guarantees are unconditional commitments that guaranty the performance of obligations under a debt service schedule. The Company's potential liability in the event of non-performance by the issuer of the reinsured obligation is represented by its proportionate share of the aggregate outstanding principal and interest payable on such insured obligations.

We have not written any credit default swap ("CDS") contracts on a direct basis, meaning that we have not written any individual International Swaps and Derivatives Association, Inc. ("ISDA") contracts. However, we have reinsured quota share portions of CDS insured by our ceding companies. Our ceding companies generally do not provide us with payment terms of their insured credit derivatives unless the transaction is on their Watch List. We may also request the payment information on policies but the primaries are not contractually obligated to provide this to us and we have not received complete information from all of the primaries.

Based on the public reports of our ceding companies, the payment terms of their CDS contracts are generally "pay as you go", meaning they insure payment of timely interest and ultimate principal or ultimate principal only at final maturity. However, based on these reports, in some cases payment terms are other than "pay as you go." For example, in some cases payments are required upon settlement of individual referenced collateral losses in excess of policy-specific deductibles and subordination. The deductible or loss threshold is the amount of losses experienced with respect to the underlying or referenced collateral that would be required to occur before a claim against the ceding company's insurance policy can be made.

Further, based on the public reports of our ceding companies, their credit derivative transactions are governed by ISDA documentation and operate differently from financial guaranty insurance policies. For example, unlike financial guaranty insurance policies, a credit derivative may be terminated for a breach of the ISDA documentation or other specific early termination event, such as insolvency of or failure to pay by the ceding company. If a credit derivative is terminated early, a ceding company could be required to make a mark-to-market payment as determined under the ISDA documentation. We believe our contractual obligation to indemnify the ceding companies for losses under our reinsurance contracts only extends to defaults in the underlying transaction covered by the ISDA documentation and not defaults by the primary company or its affiliates under the ISDA documentation.

In determining the timing and terms of potential payments under our insured credit derivatives, all of our insured credit derivatives are "pay as you go," unless the transaction is on our Watch List and the ceding company states that the insured credit derivatives have different payment terms. We believe that defaults are probable only with respect to policies in category 4 of our Watch List, and because we know the payment terms of these transactions, our liquidity risk is mitigated. However, we are at risk of unanticipated loss payments under insured credit derivative policies that are not on our Watch List. Such an unanticipated payment could have an adverse effect on our liquidity. If an unexpected loss were to arise, we have a highly liquid and short duration investment portfolio in place to handle any unanticipated losses.

As of December 31, 2008 and 2007, the Company's outstanding principal reinsured was $30.0 billion and $45.4 billion, respectively. If a primary financial guaranty insurance company pays a claim and has recourse through subrogation rights, the Company would benefit based on its proportionate share of risk.

Outstanding principal reinsured as of December 31, 2008 and 2007 by credit sector was (in millions)[(1)]:

US Public Finance	2008 OS Par	2008 %	2007 OS Par	2007 %
		(dollars in millions)		
General Obligation and Lease	$ 6,859	22.9%	$ 7,964	17.5%
Tax-backed	2,095	7.0%	2,571	5.7%
Transportation	2,803	9.4%	3,078	6.8%
Healthcare	1,672	5.6%	2,570	5.7%
Utility	3,032	10.1%	3,723	8.2%
Investor-owned Utilities	609	2.0%	769	1.7%
Other	1,118	3.7%	1,545	3.4%
Total US Public Finance	$ 18,190	60.7%	$ 22,219	48.9%

US Structured Finance	2008 OS Par	2008 %	2007 OS Par	2007 %
		(dollars in millions)		
Commercial ABS2 and CDOs	$ 4,147	13.8%	$ 9,221	20.3%
RMBS	1,324	4.4%	2,488	5.5%
Other Structured Finance & Corporate	1,012	3.4%	1,422	3.1%
Total US Structured Finance	$ 6,483	21.6%	$ 13,131	28.9%

International	2008 OS Par	2008 %	2007 OS Par	2007 %
		(dollars in millions)		
Asset-backed	$ 2,529	8.4%	$ 5,052	11.1%
Public Finance	1,575	5.3%	3,119	6.9%
Investor-owned Utilities and Other	1,180	3.9%	1,873	4.1%
Total International	$ 5,284	17.6%	$ 10,044	22.1%
Total	$ 29,957	100%	$ 45,394	100.0%

The following table sets forth our in-force portfolio net exposure outstanding as of each of the years indicated, by product line and bond type for transactions issued both in the U.S. and internationally.

US Public Finance	2008 OS Exp	2008 %	2007 OS Exp	2007 %
		(dollars in millions)		
General Obligation and Lease	$ 11,284	22.2%	$ 13,160	18.3%
Tax-backed	3,921	7.7%	4,742	6.6%
Transportation	4,942	9.7%	5,799	8.1%
Healthcare	3,179	6.3%	4,885	6.8%
Utility	5,490	10.8%	6,586	9.2%
Investor-owned Utilities	1,338	2.6%	1,601	2.2%
Other	2,368	4.6%	3,256	4.6%
Total US Public Finance	$ 32,522	64.1%	$ 40,028	55.7%

US Structured Finance	2008 OS Exp	2008 %	2007 OS Exp	2007 %
		(dollars in millions)		
Commercial ABS and CDOs	$ 5,475	10.8%	$ 11,296	15.7%
RMBS	1,522	3.0%	2,783	3.9%
Other Structured Finance & Corporate	1,772	3.5%	1,908	2.6%
Total US Structured Finance	$ 8,768	17.3%	$ 15,987	22.2%

International	2008 OS Exp	2008 %	2007 OS Exp	2007 %
		(dollars in millions)		
Asset-backed	$ 3,402	6.7%	$ 5,868	8.2%
Public Finance	2,977	5.9%	5,650	7.8%
Investor-owned Utilities and Other	3,062	6.0%	4,377	6.1%
Total International	$ 9,441	18.6%	$ 15,895	22.1%

US Public Finance	2008 OS Exp	2008 %	2007 OS Exp	2007 %
	(*dollars in millions*)			
Total	$ 50,731	100%	$ 71,911	100.0%

(1) All exposure outstanding in this table is reported with a one-quarter lag. 2008 data excludes amounts commuted back to MBIA per the Commutation Agreement dated November 30, 2008. Due to rounding, the numbers may not add up to the totals.
(2) Asset-backed securities ("ABS").

Outstanding principal reinsured at December 31, 2008 and 2007 by geographic location was (in millions)[(1)]:

	2008 OS Par	2008 %	2007 OS Par	2007 %
Multi-state	$ 5,804	19.4%	$ 12,859	28.3%
International	5,284	17.6%	10,044	22.1%
California	3,111	10.4%	3,618	8.0%
New York	2,161	7.2%	2,652	5.8%
Illinois	1,247	4.2%	1,358	3.0%
Florida	1,201	4.0%	1,559	3.4%
Other U.S. States	11,149	37.2%	13,304	29.3%
	$ 29,957	100.0%	$ 45,394	100.0%

The Company attempts to limit its exposure to credit risk through risk management guidelines, the objectives of which are to ensure that the Company maintains a reinsured portfolio that is of high quality and is sufficiently diversified to protect the Company from unexpected severe deterioration in any particular credit sector or geographic location.
(1) As a reinsurer we report outstanding exposure on a one-quarter lag, which is consistent with the reinsurance industry practice, data excludes amounts commuted back to MBIA per the Commutation Agreement dated November 30, 2008. However, we closely monitor any credit changes on an ongoing basis through discussions with the ceding companies and rating agencies and our loss and loss expense reserves are current as of the end of the applicable quarter reported.

13 PENSION AND PROFIT PARTICIPATION PLANS

The Company maintains qualified and non-qualified, non-contributory, defined contribution pension plans for the benefit of eligible employees. These plans are administered by a third party. The Company's contributions are based upon a fixed percentage of employee compensation. Pension expense, which is funded as accrued, for the years ended December 31, 2008, 2007, and 2006 was $0.4 million, $0.4 million, and $0.5 million, respectively.

The Company maintains a rabbi trust for deferred compensation plans for executives. The rabbi trust holds assets such as cash, fixed income and equity securities in the form of mutual funds. These assets of the rabbi trust are consolidated with those of the Company and are reflected in other assets. These assets are classified as trading securities and reported at fair value with changes in fair value reflected in net investment income. The related deferred compensation obligation is carried at fair value and reflected in other liabilities with changes reflected as a corresponding increase or decrease to administrative expenses.

On November 11, 2008, the Company approved certain technical amendments to the deferred compensation plan for highly compensated U.S. citizen executives (the "Affected Executives") in order to comply with Section 409A of the U.S. Internal Revenue Code. Under recently enacted Section 457A of the U.S. internal Revenue Code, unless further regulations are promulgated that would exempt the Company from its application, the Affected Executives would be unable to defer income tax on contributions to the deferred compensation plan in respect of services rendered after December 31, 2008. Consequently, the deferred compensation plan was also amended to provide that no further contributions to the deferred compensation plan would be made by the Company after December 31, 2008. Further, the Company approved permitting the Affected Executives to make a change in their payment elections under the 409A transition rules on or before December 31, 2008. As a consequence of elections made by the Affected Executives, subsequent to December 31, 2008, all of the funds held in the rabbi trust established under the deferred compensation plan were paid out to the Affected Executives. It is not expected that additional funds will be deposited in the rabbi trust because the Company has ceased contributing to the deferred compensation plan, but the Affected Executives are permitted to continue to make contributions to the deferred compensation plan at their election.

14 OTHER RECEIVABLES

The Company renewed its Directors & Officers ("D&O") insurance in February 2008. One of the policies forming part of the total coverage involved a premium of $5.0 million, $4.0 million of which is refundable to the Company if no claims are made under the policy by the end of the annual period of coverage. The Company believes that there has not been a transfer of significant insurance risk on this part of the coverage and accordingly has accounted for the policy as a non risk transferring contract. Of the $5.0 million paid for this part of the coverage, $4.0 million, representing the amount currently expected to be recovered from the insurers, has been accounted for as a receivable in other receivables on the balance sheet and the Company has expensed the $1.0 million premium which it does not expect to recover.

15 REINSURANCE BALANCES PAYABLE

Reinsurance balances payable consist of the following balances at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
Accrual for ceding commissions on downgrade	19,965,482	—
Net payable on assumed reinsurance	4,655,629	—
Net payable on ceded reinsurance	—	539,394
	$ 24,621,111	$ 539,394

On June 4, 2008, S&P lowered its financial strength rating of RAM Re from AAA on credit watch with negative implications to AA with a negative outlook. On September 24, 2008, S&P further lowered RAM Re's financial strength rating to A+ (with negative outlook). As a result of these downgrades certain of the ceding companies have a right under some of our treaty agreements to increase the ceding commission charged to RAM Re on the U.S. statutory unearned premium balance, as well as premiums payable after the downgrade. This increase applies to all financial guaranty and derivative policies covered by the relevant treaties. As at December 31, 2008, RAM Re estimates the increase in ceding commission on U.S. statutory unearned premiums to be $20.3 million and has recorded this in deferred acquisition costs on the balance sheet. These additional ceding commissions are being expensed in proportion to the earning of the remaining unearned premium. As of December 31, 2008, $20.0 million of this balance has been accrued to reinsurance balances payable, and the remainder has been paid to one of RAM Re's ceding companies under the terms of the agreements.

On August 7, 2008, Moody's downgraded its financial strength rating on RAM Re from Aa3 to A3 and, on December 4, 2008, Moody's further downgraded RAM Re to Baa3 with outlook developing. At this time, RAM is unable to conclude if there will be any further additional ceding commissions associated with Moody's downgrade because Moody's has not yet established the amount of reinsurance credit RAM Re will provide its ceding companies at the Baa3 level. Subsequent to December 31, 2008, RAM Re withdrew their rating from Moody's. This is not expected to have an effect the amount additional ceding commissions accrued.

As at December 31, 2008 and 2007, $4.7 million and $Nil, respectively, was due to primary insurers in the ordinary course of business, representing RAM Re's proportionate share of paid losses net of premiums receivable and ceding commission on the periodic cessions received from the primary insurers.

As at December 31, 2008 and 2007, $Nil and $0.5 million, respectively, was owing to the counterparty of the Company's retrocession agreement, representing written premiums ceded net of ceding commissions.

16 COMMUTATIONS

MBIA commutation:

Effective November 30, 2008, RAM Re entered into a commutation agreement with MBIA Insurance Corporation and its affiliates ("MBIA"), to commute its entire portfolio of business previously assumed from MBIA back to MBIA. As consideration for the commutation RAM Re paid MBIA $156.5 million. The commutation reduced the outstanding par amount of RAM's insured portfolio by $10.6 billion, including $439.3 million of collateralized debt

obligations of asset-backed securities (ABS CDOs) (all structured as credit derivatives), $2.4 billion of collateralized debt obligations of commercial mortgage-backed securities (CMBS CDOs) and $453.0 million of 2005 - 2008 vintage U.S. RMBS.

The effect of the MBIA commutation on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $36.4 million, resulting in no impact on earned premiums (ii) increase net change in fair value of credit derivatives by a gain of $110.7 million, and (iii) increase loss and loss adjustment expenses by a loss of $61.4 million, resulting in an overall gain to net income at the time of commutation of $49.3 million.

XLFA commutation:

On July 25, 2008, RAM Re entered into a Commutation Agreement with Syncora Guaranty Re (formerly XL Financial Assurance Ltd.) ("XLFA"), whereby RAM Re transferred all business previously ceded to RAM Re by XLFA back to XLFA and each of RAM Re and XLFA released each other from claims under the reinsurance agreements. As consideration for the Commutation Agreement, RAM Re paid $94.4 million which comprised the repayment of $8.6 million of unearned premiums, net of ceding commission, $16.1 million towards estimated loss reserves on RMBS and $69.7 million towards unrealized losses on ABS CDOs. The transaction reduced the par amount of RAM's insured portfolio by $3.5 billion of which $711 million related to 2005 - 2007 vintage ABS CDOs (all structured as credit derivatives) and $280 million of 2005 - 2007 vintage RMBS.

The effect of the XLFA commutation on the Company's results of operations was to (i) reduce gross written premiums by $11.4 million, (ii) increase net earned premiums by $1.1 million, (iii) increase net change in fair value of credit derivatives by a gain of $26.0 million, (iv) reduce loss and loss adjustment expenses by a gain of $15.5 million and (v) increase acquisition expenses by $0.3 million, resulting in an overall gain to net income of $42.3 million.

Other commutations:

During the second quarter of 2008, the Company entered into partial commutation agreements with two of the Company's primary insurers. Under these agreements $1.0 billion in par outstanding of insurance policies previously reinsured by the Company was commuted back to the primary insurers. All the Company's obligations with respect to these policies were terminated on commutation. The Company paid $7.1 million in consideration of these commutations, calculated as U.S. statutory unearned premiums net of ceding commissions at the effective date of the commutations. The effect of these commutations on the Company's income statement was to reduce (i) gross written premiums by $10.2 million, (ii) net earned premiums by $1.8 million and (iii) acquisition expenses by $0.6 million, giving an overall reduction to net income of $1.2 million.

17 STOCK OPTION PLAN

Prior to January 1, 2006, share options were issued to senior management and directors on an ad hoc basis and accounted for under Accounting Principles Board Opinion ("APB") Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related Interpretations as permitted by Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation ("FAS 123"). Under APB 25 the fair value per share at the grant date was estimated as book value at the most recent quarterly reporting period and the strike price of the options granted was the book value at the date of grant. Therefore, the intrinsic value is zero for all options granted under APB 25 that have the same fair value and strike price and no compensation expense is recognized for the cost of the share options.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("FAS 123R"), utilizing the prospective transition method. Under the prospective transition method, compensation costs recognized relate to the estimated fair value at the grant date of share options granted subsequent to January 1, 2006 in accordance with FAS 123R. The Company continues to account for share options issued under APB 25, where no compensation expense is recognized in net income for share options granted under the plan as the exercise price is equal to the fair value of the underlying common shares at the date of grant. In

accordance with the provisions of FAS 123R, options granted prior to January 1, 2006 using APB 25, have not been restated to reflect the adoption of FAS 123R. For the periods ended December 31, 2008, 2007, and 2006, the Company recognized $0.1 million, $0.1 million and $0.1 million, respectively, of compensation expense in the period for share options with an exercise price less than the market value of the underlying common shares on the date of the grant.

As of April 26, 2006, the Company adopted the RAM Holdings Ltd. 2006 Equity Plan (the "Plan"). The number of common shares that may be delivered under the Plan may not exceed 2,470,000. In the event of certain transactions affecting the common shares of RAM Holdings Ltd., the number or type of shares subject to the Plan, the number and type of shares subject to outstanding awards under the Plan, and the exercise price of awards under the Plan, may be adjusted. The Plan authorizes the grant of share options, share appreciation rights, share awards, restricted share units, performance units, or other awards that are based on the Company's common shares. The awards granted are contingent on the achievement of service conditions during a specified period, and may be subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the participant. Awards under the Plan may accelerate and become vested upon a change in control of the Company. The Plan is administered by the compensation committee of the Board of Directors. The plan is subject to amendment or termination by the board.

As at December 31, 2008, outstanding awards under the Plan of 1,552,297 share options and 139,626 restricted share units had been granted to the Company's officers and employees. Each of the options will vest in equal annual installments over a four-year period and will expire on the seventh anniversary of the date of grant. The grant price is the average of the highest and lowest quoted selling price on the grant date. The exercise price of the options at December 31, 2008 ranges from $1.45 to $16.20. Restricted share units will vest in equal annual installments over a four-year period.

Stock Options

The Company has used the Black-Scholes option pricing model to estimate the fair value of share options using the following weighted average assumptions as at December 31, 2008, 2007 and 2006:

	Twelve Months Ended December 31,		
	2008	**2007**	**2006**
Dividend yield	0%	0%	0%
Expected volatility	57.61%	23.05%	25.7%
Risk-free interest rate	2.3%	4.6%	4.9%
Expected life of options (in years)	4.0	4.0	4.1
Weighted-average grant-date fair value	$ 0.68	$ 4.04	$ 3.90

These assumptions are based on a number of factors as follows: (i) dividend yield was determined based on the Company's historical dividend payments which have been nil and expected dividend payments in the future which are also expected to be nil, (ii) expected volatility was determined using the historical volatility of the share price of the Company and similar companies within the financial guaranty industry, (iii) the expected term of the options is based on the period of time that the options granted are expected to be outstanding, and (iv) the risk-free rate is the U.S. Treasury rate effective at the time of grant for the duration of the options granted. Compensation cost is recognized on a straight-line basis over the vesting period and is net of estimated prevesting forfeitures. The estimated forfeiture rate is based on actual forfeitures adjusted for future forfeiture expectations due to limited historical forfeiture data. At December 31, 2008, the weighted average grant date fair value, using FAS 123 for disclosure purposes was $1.96.

As at December 31, 2008, there was $1.6 million of unrecognized compensation expense related to the share options granted under FAS 123R which is expected to be recognized over the remaining service period of 2.61 years.

The following tables summarize the share option activity for the years ended December 31, 2008, 2007, and 2006:

12 Months Ended December 31, 2008	**Number of shares**	**Weighted average exercise price per share**	**Weighted-Average Remaining Contractual Life**	**Aggregate Intrinsic Value(1)**
Options				
Outstanding – Beginning of year	1,252,197	$ 12.66		
Forfeited	(109,200)	11.16		
Granted during the period	973,500	1.47		
Outstanding – End of period	2,116,497	7.59	5.61 years	$ —
Exercisable – End of period	734,271	12.08	—	$ —
Weighted average fair value per share of options granted during the period		$ 0.68		

(1) The aggregate intrinsic value was calculated based on the market value of $0.37 as at December 31, 2008, and is calculated as the difference between the market value and the exercise price of the underlying options.

12 Months Ended December 31, 2007	**Number of shares**	**Weighted average exercise price per share**	**Weighted-Average Remaining Contractual Life**	**Aggregate Intrinsic Value(1)**
Options				
Outstanding – Beginning of year	1,141,504	$ 12.10		
Forfeited	(201,864)	13.70		
Granted during the period	312,557	15.39		
Outstanding – End of period	1,252,197	12.66	6.14 years	$ —
Exercisable – End of period	607,989	11.50	—	$ —
Weighted average exercise price per share of options granted during the period(2)		$ 4.04		

(1) The aggregate intrinsic value was calculated based on the market value of $4.94 as at December 31, 2007, and is calculated as the difference between the market value and the exercise price of the underlying options.

12 Months Ended December 31, 2006	**Number of shares**	**Weighted average exercise price per share**	**Weighted-Average Remaining Contractual Life**	**Aggregate Intrinsic Value(1)**
Options				
Outstanding – Beginning of year	752,700	$ 11.18		
Purchased from employee(2)	(31,200)	11.12		
Forfeited	(46,800)	11.12		
Granted during the period	466,804	13.42		
Outstanding – End of period	1,141,504	12.10	7.08 years	$ 2,499,857
Exercisable – End of period	389,241	11.15	7.51 years	$ 1,216,491
Weighted average exercise price per share of options granted during the period(3)		$ 3.90		

(1) The aggregate intrinsic value was calculated based on the market value of $14.29 as at December 31, 2006, and is calculated as the difference between the market value and the exercise price of the underlying options.
(2) During the year ended December 31, 2006, the Company purchased from employees 31,200 options that were fully vested at an expense of $0.1 million.
(3) FAS 123R was adopted on January 1, 2006, prior to that share options were accounted for under APB 25.

Restricted Share Units

The Company has granted restricted share units to employees of the Company. Restricted shares vest annually over a four year period.

The following table summarizes the restricted share unit activity for the years ended December 31, 2008, 2007, and 2006:

12 Months Ended December 31, 2008	**Number of share units**	**Weighted average grant date fair value per share**
Restricted Share Units		
Non-vested – Beginning of year	50,415	15.56
Granted	106,969	1.51
Vested	(12,619)	15.55
Forfeited	(5,138)	14.69
Non-vested – End of period	139,627	$ 4.82

12 Months Ended December 31, 2007	**Number of share units**	**Weighted average grant date fair value per share**
Restricted Share Units		
Non-vested – Beginning of year	19,044	13.39
Granted	48,079	16.19
Vested	(4,221)	13.38
Forfeited	(12,487)	15.42
Non-vested – End of period	50,415	$ 15.56

12 Months Ended December 31, 2006	**Number of share units**	**Weighted average grant date fair value per share**
Restricted Share Units		
Non-vested – Beginning of year	—	—
Granted	20,032	13.39
Vested	—	—
Forfeited	(988)	13.45
Non-vested – End of period	19,044	$ 13.39

The Company expensed $0.2 million and $0.2 million in compensation expense related to the restricted share units for 2008 and 2007 respectively (2006 - immaterial). The compensation expense for restricted share units is expensed on a prorated basis over the vesting period. At December 31, 2008, there is unrecognized compensation expense related to the non-vested restricted share units of $0.5 million, which will be recognized over the weighted average remaining service period of 2.90 years.

Other

As of June 30, 2005, the Company entered into Payment Agreements that terminated both the Contingent Share Agreements and 472,420 vested Stock Options of three management employees. On June 30, 2006, the Company paid $1.6 million to the employees and subsequently paid an additional $0.7 million in the third quarter of 2006 which represented the remaining value of the ultimate liability.

In December 2008, RAM Re commuted a further $158.3 million in par outstanding on two policies with another primary insurer. One policy was a partial commutation of $41.8 million par outstanding on a 2007 subprime RMBS whereas RAM Re's total obligations on the second policy were terminated fully. The Commutation payment of $3.1 million reduced the total loss reserve accordingly.

18 COMMITMENTS AND CONTINGENCIES

During 2007, the Company renewed its agreement to lease office space for the two years ending December 31, 2009. As of December 31, 2008, the future minimum commitment under the lease, for the year remaining, is $0.3 million. Rental expense for the aforementioned lease amounted to $0.3 million in all years presented.

19 RISKS AND UNCERTAINTIES

As at December 31, 2008, RAM Re had been assigned an "A+" rating with negative outlook from S&P and a "Baa3", with developing outlook rating from Moody's. S&P stated that the "A+" rating, issued on September 24, 2008, reflects its view that the diversity and scope of RAM Re's reinsurance relationships have suffered as more of the primary insurers' new business production has declined in the current environment. These changes raise the likelihood in S&P's view that RAM Re's new business generation will be limited until the primary insurers can stabilize their franchises. The rating changes also reflect the difficulty S&P believes RAM Re may face, in light of the current environment, toward improving its historically below-average return on equity (ROE). Finally, S&P stated that the rating changes reflect S&P's view of RAM Re's weakened capital adequacy position, which is the result of a significant amount of projected losses relating primarily to reinsured subprime and second-lien RMBS and, secondarily, CDOs of ABS. Although the company's capital adequacy margin of safety in S&P's analysis was at the low end of the range of 1.0x -1.1x, which exceeds S&P's 'A' criteria of 0.8x, it has declined from prior years when the margin of safety was in excess of 1.25x. Moody's stated that its rating action on December 4, 2008, reflected Moody's views on RAM Re's overall credit profile in the current environment, including the potential for increased losses among its mortgage-related exposures and significantly constrained new business prospects. Moody's stated that the downgrade resulted from three primary factors, the first being Moody's expectations of greater losses on mortgage-related exposures, reflecting continued adverse delinquency trends. Moody's stated that although RAM Re has reduced the size of its RMBS and ABS CDO portfolios through recent commutation transactions with MBIA and Syncora, loss expectations relating to RAM Re's direct RMBS portfolio were material relative to capital. The second factor was Moody's view of diminished business prospects as reflected by low underwriting volume. The third factor according to Moody's was the Company's impaired financial flexibility.

The downgrade of RAM Re's ratings has had a material adverse affect on RAM Re's ability to compete in the financial guaranty reinsurance industry and significantly decreased the value of the reinsurance provided. Due to the above mentioned downgrades, certain ceding companies have the right to increase the ceding commission, as stipulated in the treaties, or terminate the treaties and recapture the business previously ceded to RAM Re whether written in financial guaranty or credit derivative form. To the extent policies are recaptured, RAM must forfeit to the ceding company an amount determined by formula under each treaty which generally consists of RAM's allocated share of the U.S. statutory unearned premium, net of the ceding commission paid by RAM to the ceding company (subject to a penalty amount in some cases), and loss reserves established with respect to the policies ceded, as applicable. U.S. statutory premiums usually earn at a slower rate than GAAP premiums and therefore any forfeiture of U.S. statutory unearned premiums would result in a loss on a GAAP basis. The difference between U.S. statutory unearned premiums and GAAP unearned premiums was $31.0 million at December 31, 2008. In some cases, the ceding companies have the right to select specific years of business written to recapture, and a decision by a ceding company to recapture, for example, all business written prior to 2006, could have a material adverse effect on RAM Re because of the projected losses associated with the business written in the last three years. As of April 13, 2009, none of the primaries have recaptured any business. The commutations negotiated during the year were not a result of these treaty terms. As at December 31, 2008, we have accrued or paid additional ceding commissions related to the S&P downgrade totaling $20.3 million which is being expensed as the related premiums are earned. See Note 15, Reinsurance balances payable, for disclosure on the financial statement effect of increased ceding commission relating to these downgrades.

During 2008, RAM Re renewed two treaties that were effective in the first quarter with AAA-rated ceding companies, both of which were subsequently downgraded by Moody's (but not S&P) to the Aa-level. RAM Re has not renewed these treaties in 2009. This means that RAM Re does not expect to write any financial guaranty reinsurance business in the current year but this does not reduce our in-force business, unless the business is commuted or recaptured by the primaries. The remaining treaties that were in effect in 2007 were cancelled or expired in 2008. New business written in 2008 was minimal as a result of a number of factors arising out of the effect of the subprime and credit crisis on the financial guaranty industry, including the following:

- RAM Re has been downgraded and was in a rating agency capital constrained position
- RAM Re discontinued treaties with four ceding companies that were downgraded below AAA

- There were only two AAA-rated ceding companies with which RAM Re had treaties in 2008.
- Reduced structured finance issuances
- Lower insured penetration of the public finance market

The Company has not renewed its reinsurance treaties with any of the primaries or otherwise written any new business in 2009. This means that we do not expect to write any financial guaranty reinsurance in the current year but this does not reduce our in-force business, unless the business is commuted or recaptured by the primaries.

RAM Holdings is a holding company and therefore our liquidity, both on a short-term basis (for the next 12 months) and a long-term basis (beyond the next year), is largely dependent upon (1) the ability of RAM Re to pay dividends or make other payments to the Company and (2) its ability to access debt and equity markets, which is unlikely in the near term given current market conditions and the Company's current share valuation. RAM Re's ability to declare and pay dividends to us may be influenced by a variety of factors such as additional losses, amount and timing of claims payments, the amounts required to be held in trust for the benefit of U.S. regulated customers, adverse market changes, insurance regulatory changes, changes in general economic conditions beyond the next twelve months and Bermuda law. Further increases in loss reserves and credit impairments would require RAM Re to deposit additional collateral in the applicable trust account(s); and resulting claims payments in respect of those losses and impairments would increase cash outflows and could decrease the size of RAM Re's investment portfolio, in turn decreasing income from investments. RAM Holdings principal uses of liquidity are for payment of interest on its senior notes, payment of dividends on preference shares if declared by the Board of Directors of RAM Holdings and capital investments in RAM Re.

20 LONG-TERM DEBT

On March 26, 2004, RAM Holdings Ltd. issued $40.0 million of unsecured senior notes (the "Notes") to a qualified institutional buyer as defined in Rule 144A of the Securities Act. The term of the Notes is 20 years with the full principal amount due at maturity. The Notes rank *pari passu* in right of repayment with RAM Holding Ltd.'s other unsecured senior debt, of which there is currently none. The net proceeds from the Notes have been used to provide capital for RAM Reinsurance Company Ltd.

The applicable interest rate is 6.875% and is payable semi-annually. The Notes are subject to redemption at the option of RAM Holdings Ltd., in whole or in part at any time upon 30 days advance notice by paying principal, accrued interest and the Make Whole Amount, amounting to a portion of the future scheduled payments over the principal amount. There are no financial covenants in place. Interest expense amounting to $2.8 million for each of the years ended December 31, 2008, 2007 and 2006 has been recorded.

21 REDEEMABLE PREFERENCE SHARES

On December 14, 2006, the Company issued 75,000 preference shares at $1,000 per share for total consideration of $75.0 million. The preference shares bear a non-cumulative, non mandatory dividend rate of 7.50% which is payable semi-annually on June 15 and December 15 each year upon declaration by the Board of Directors. Unless previously redeemed, the preference shares have a mandatory redemption date of December 15, 2066. The Company can redeem the preference shares at any time from December 15, 2016 with no penalty to the Company. Prior to December 15, 2016, the Company can redeem the preference shares at the redemption price and a "make-whole" amount, amounting to dividends for the remainder of the period to December 15, 2016. During the years ended December 31, 2008 and 2007 dividends amounting to $5.6 million have been declared and paid. There were no dividends declared or paid in 2006. The payment of preference share dividends is classified as interest expense.

22 RELATED PARTY TRANSACTIONS

As at December 31, 2005, MBIA, one of the four major primary insurers, owned 11.4% of our aggregate issued and outstanding common shares. MBIA sold all of its RAM Holdings shares in our initial public offering, which closed

on May 2, 2006, and is no longer a "related party." During the year ended December 31, 2008, the Company commuted all business previously assumed from MBIA, back to MBIA, see Note 16 Commutations, for further details of this transaction. Prior to the initial public offering, MBIA Capital, a wholly-owned subsidiary of the parent company to MBIA, had been engaged to provide the Company with investment advisory and management services. The Company had agreed to pay an annual investment management fee payable quarterly in arrears based on the average market value of the assets under management for each quarter. In addition, the Company had agreed to reimburse custodian fees, transfer agent fees and brokerage costs, fees and commissions and certain other out-of -pocket expenses. During the year ended December 31, 2008, the Company ceased to use MBIA Capital for its investment advisory and management services.

In December 2003, two of our shareholders became investors in FGIC Corporation, an insurance holding company whose subsidiary FGIC was one of the four largest U.S. based primary financial guaranty insurance companies through December 2007. In the ordinary course of business, we have entered into treaty and facultative reinsurance agreements with FGIC. The treaty agreement was not renewed in 2008. In 2008, 2007 and 2006, financial guarantee gross premiums written plus premiums received on CDS policies ceded from FGIC accounted for 7%, 26% and 12% of total premiums received by the Company, respectively (prior to taking effect of premiums returned on commutations in 2008). In 2008, RAM Re paid $3.1 million to FGIC to settle disputes under certain reinsurance agreements. There were no amounts due from FGIC as of December 31, 2008 and 2007.

23 SHARE CAPITAL

As at December 31, 2008 and 2007, authorized share capital was 90,000,000 common shares and 10,000,000 undesignated preference shares with a par value of $0.10 each. Shares issued and outstanding as at December 31, 2008 and 2007 were 27,251,595 and 27,238,976, respectively. During the years ended December 31, 2008 and 2007, 12,619 and 4,221, respectively, restricted stock units vested and were issued as share capital, increasing the common shares issued and outstanding.

24 TAXATION

The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 28, 2016. At the present time no such taxes are levied in Bermuda.

The Company does not consider itself to be engaged in trade or business in the U.S. and, accordingly, does not expect to be subject to U.S. taxation.

25 STATUTORY REQUIREMENTS

RAM Re is registered under the Bermuda Insurance Act 1978, amendments thereto and related Regulations (the "Act"), which require that they maintain minimum levels of solvency and liquidity. For the years ended December 31, 2008 and 2007 these requirements have been met. The minimum required statutory capital and surplus was $15.3 million and $16.7 million and actual statutory capital and surplus was $158.4 million and $369.7 million as of December 31, 2008 and 2007, respectively. The minimum required level of liquid assets was $217.6 million and $268.1 million and actual liquid assets were $444.5 million and $727.1 million as of December 31, 2008 and 2007, respectively.

The Act limits the maximum amount of the annual distributions paid by RAM Reinsurance without notifying the Bermuda Monetary Authority of such payment. The maximum amount of dividends that could be paid by RAM Reinsurance as a reduction of statutory capital, without such notification, was $39.6 million and $51.5 million as at December 31, 2008 and 2007, respectively without consideration of GAAP retained earnings.

RAM Re must also comply with the provisions of the Bermuda Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) the company is, or would after the payment, be unable to pay its liabilities as they become due; or (b) the realizable

value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Statutory financial statements prepared under the Act differ from financial statements prepared in accordance with US GAAP, principally due to the exclusion of non-admitted assets such as deferred policy acquisition costs, prepaid expenses and the fair value adjustment of derivative instruments in excess of credit impairments, a non-GAAP measure.

26 QUARTERLY FINANCIAL INFORMATION (unaudited)

A summary of selected quarterly statement of operations information follows:

2008	First	Second	Third	Fourth
	($ in thousands, except per share data)			
Gross written premiums	$ 17,647	$ (161)	$ 2,673	$ (31,372)
Net written premiums	16,647	(183)	2,673	(30,860)
Net earned premiums	13,198	19,471	20,727	15,181
Net change in fair value of credit derivatives	(163,770)	154,247	(1,249)	18,740
Net investment income	8,213	8,320	7,098	5,677
Net realized investment gains (losses)	(912)	665	(4,997)	2,888
Net unrealized gains on other financial instruments	1,340	3,580	1,500	1,333
Loss and loss adjustment expenses	(37,528)	(45,752)	(50,011)	(81,537)
Other expenses	(10,010)	(14,271)	(13,499)	(18,102)
Net income (loss)	(189,469)	126,260	(40,431)	(55,820)
Earnings per share(1):				
Basic	$ (6.95)	$ 4.63	$ (1.48)	$ (2.05)
Diluted	$ (6.95)	$ 4.63	$ (1.48)	$ (2.05)

2007	First	Second	Third	Fourth
	($ in thousands, except per share data)			
Gross written premiums	$ 20,714	$ 27,797	$ 26,193	$ 23,797
Net written premiums	20,714	27,797	26,193	23,045
Net earned premiums	12,509	12,045	13,777	12,673
Net change in fair value of credit derivatives	979	1,164	(26,498)	(147,450)
Net investment income	7,645	8,404	8,409	8,690
Net realized investment gains (losses)	—	(8)	—	(3,596)
Net unrealized gains on other financial instruments	—	—	—	35,330
Loss and loss adjustment expenses	1,014	(935)	(1,273)	(46,833)
Other expenses	(7,823)	(11,554)	(9,077)	(11,711)
Net income (loss)	14,324	9,116	(14,662)	(152,897)
Earnings per share (1)				
Basic	$ 0.53	$ 0.33	$ (0.54)	$ (5.61)
Diluted	$ 0.52	$ 0.33	$ (0.54)	$ (5.61)

(1) Per share amounts for the quarters and the full years have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the average common shares outstanding during each period and, with regard to diluted per share amounts only, because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive.

Investments are discussed in note 7, Derivatives in note 4 and Losses and loss expense reserves in note 11 to these financial statements.

27 SUBSEQUENT EVENTS

See Note 9 Contingent Capital and Credit Facilities regarding the exercise of the Company's soft capital facility put option subsequent to year end.

On April 7, 2009, RAM Re entered into a commutation agreement (the "Ambac Commutation Agreement") with Ambac Assurance Corporation and its affiliate ("Ambac"). The Ambac Commutation Agreement provided, among other things, for RAM Re to pay a $97 million settlement payment and $1.3 million of claims payments, by means of a release to Ambac of securities in Ambac's trust account valued at $97.8 million and a cash payment of $0.5 million, to commute the entire $7.4 billion insured portfolio assumed from Ambac, and for each party thereto to release the other party from all liabilities and obligations under all reinsurance agreements between the parties. The

securities in the trust account and cash payment were received by Ambac, and the releases set forth in the Commutation Agreement became effective, on April 8, 2009. If the Ambac commutation had been effective at December 31, 2008, it would have resulted in a reduction of RAM Re's statutory capital and surplus under Bermuda law from $158.4 million to approximately $148.4 million.

DIRECTORS AND EXECUTIVE OFFICERS

Director Biographies

Set forth below is biographical information concerning each director of RAM Holdings and RAM Re, including each such individual's principal occupation and the period during which such person has served as a director of RAM Holdings and RAM Re.

Steven J. Tynan
Age 54
Director since 1998
Chairman of the Board of Directors since 2001

Mr. Tynan co-founded High Ridge Capital LLC, a private equity firm that specializes in the insurance sector, in 1995 and has served as a member of the firm since that time. In his capacity with High Ridge, Mr. Tynan has served on the boards of numerous private insurance, reinsurance and related entities.

Vernon M. Endo
Age 54
President and Chief Executive Officer
Director since 2003

Mr. Endo joined the Company in 2003 from GFGC LLC, a startup venture formed to establish a European-based financial guaranty company, where he was CEO and co-founder. Mr. Endo was a managing director and member of the corporate leadership team and board of directors at FGIC from 1991 to 2001. During his tenure at FGIC, he was responsible for various business segments including structured finance, bond insurance underwriting (including public finance and international), capital markets and new products. Between 1988 and 1991, Mr. Endo was a managing director responsible for the mortgage finance unit and was later a member of the financial institutions group at Prudential Securities. He began his career at Citibank in 1976. He is Vice Chairman and a director of the Association of Financial Guaranty Insurers. Mr. Endo attended Williams College where he graduated with a B.A. in political science.

Edward F. Bader
Age 67
Director since 2004

Mr. Bader owns Bader & Associates, a consulting firm. Prior to founding Bader & Associates in August 2001, Mr. Bader was a partner in the Insurance Services Practice of Arthur Andersen LLP with more than 37 years of experience in accounting and auditing concentrating in the insurance industry. He served as the head of Andersen's World Wide Insurance Practice Group. Mr. Bader received a B.S. degree in Economics from Fairfield University.

David L. Boyle
Age 62
Director since 2005

Mr. Boyle retired as Vice Chairman and Head of Portfolio Risk Management for Ambac Financial Group, Inc. in 2005, where he served in many different executive management capacities for eight years. Previously, Mr. Boyle was a Managing Director at Citibank, N.A. where he had various management responsibilities over a career spanning from 1974 to 1996. He is the former chairman of the Association of Financial Guaranty Insurers, and currently serves on the Board of Trustees of Wittenberg University. Mr. Boyle received a B.S. from Wittenberg University and an M.B.A. from the Fisher College of Business at The Ohio State University.

Allan S. Bufferd
Age 71
Director since 2006

Mr. Bufferd retired in June 2006 after a thirty-four year career at Massachusetts Institute of Technology, most recently as Treasurer and the Founding President of the MIT Investment Management Company. During his tenure, Mr. Bufferd participated in the management of MIT's investment portfolio. Mr. Bufferd serves as a director of Och-Ziff Capital Management Group, a NYSE listed company and City of London Investment Management Group, a London AIM listed company. Mr. Bufferd serves as a Trustee of the Whiting Foundation and a Trustee of the Robert Wood Johnson Foundation. He is also an investment advisor to the Grayce B. Kerr Foundation, and an investment advisor to the National University of Singapore. In addition, he is the Chairman of the Harvard Cooperative

Society and of the Controlled Risk Insurance Company/Risk Management Foundation (CRICO/RMF); and a Director of the Harvard Cooperative Society, the Beth Israel Deaconess Medical Center, CRICO/RMF, Adveq (Switzerland), Morgan Stanley Prime Property Fund, Bessemer Trust BGO Fund, Boston Advisors LLC, International Data Group, M Funds and Makena LLC. Mr. Bufferd holds three MIT degrees in materials engineering: the S.B., S.M. and Sc.D., as well as a J.D. from Suffolk University.

Joseph M. Donovan
Age 54
Director since 2007

Prior to his retirement in January 2007, Mr. Donovan was chairman of Credit Suisse's asset-backed securities and debt financing group, which he led for nearly seven years. Prior thereto, Mr. Donovan was a managing director and head of asset finance at Prudential Securities (1998-2000) and Smith Barney (1995-1997). Mr. Donovan began his banking career at The First Boston Corporation in 1983, ultimately becoming a managing director at CS First Boston, where he served as Chief Operating Officer of the Investment Banking Department from 1992 to 1995. Mr. Donovan received his MBA from The Wharton School and has a degree in Accountancy from the University of Notre Dame. Mr. Donovan is the Lead Independent Director and Chairman of the Audit Committee of Babcock & Brown Air Limited, a NYSE listed aircraft leasing company headquartered in Dublin, Ireland and a director of First Again, LLC, a consumer finance company in San Diego, California.

Victoria W. Guest
Age 42
General Counsel and Secretary
Director since 2009

Victoria W. Guest joined the Company in January 2006 from Heller Ehrman LLP where she had been a corporate associate since 1997. As a corporate associate, Ms. Guest worked on a wide variety of business transactions and provided advice to both venture-backed and public companies in connection with securities offerings, mergers and acquisitions and corporate governance matters. From 1996 – 1997 Ms. Guest conducted corporate investigations for Beau Dietl & Associates, a private investigative firm. Ms. Guest began her legal career as a corporate associate with Simpson Thacher & Bartlett from 1993 – 1996. Ms. Guest has a J.D., cum laude, from Harvard Law School and a B.A. in Modern Thought & Literature, phi beta kappa, from Stanford University. Ms. Guest serves as a director of The Bessemer Group, Incorporated, a manager of Bessemer Securities LLC and a trustee of Phipps Houses Group.

Michael J. Normile
Age 58
Director since 2008

From 2004 until to his retirement in September 2006, Mr. Normile was Managing Director, Fixed Income Capital Markets and Head of Structured Finance, Americas for HSBC Securities, Inc. From 1993 to 2003, Mr. Normile held various Managing Director positions with Merrill Lynch & Co. in New York and London, including Head of Principal Finance and Head of Global Insurance Markets. From 1985 to 1993, Mr. Normile worked in the asset securitization area for Solomon Brothers Inc, ultimately becoming the Head of Asset Securitization. From 2003 to 2005, Mr. Normile was a director of St. Joseph's Regional Medical Center in Patterson, New Jersey. He began his career at Irving Trust Company in 1973. Mr. Normile received his BA in Economics and Communications from Fordham University in 1973.

Lloyd A. Porter
Age 49
Director since 2008

Lloyd A. Porter is Executive Vice President, Chief Risk Officer for The PMI Group, Inc. ("PMI"). Mr. Porter is responsible for PMI's Risk Management department. His responsibilities include portfolio management and risk exposure optimization, reinsurance, reserving, pricing, corporate credit policy and asset disposition. Prior to assuming this role Mr. Porter managed PMI's non-US mortgage insurance activities. Residing in Dublin, Ireland, he

oversaw the company's activities in Australia, Europe, Hong Kong, and Canada. Other assignments included establishing PMI's Hong Kong business and directing the acquisition and integration of PMI's Australian venture, MGICA. He also lived and worked in Sydney, Australia. Mr. Porter also led the 2001 acquisition of CGU's mortgage insurance business in Australia/New Zealand. Prior to assuming the leadership role for international markets, Porter managed institutional markets, implementing the use of PMI's automated underwriting system in the capital markets. Mr. Porter is a founding board member of Habitat for Humanity Ireland. A graduate of the University of California at Los Angeles, Mr. Porter holds bachelor's degrees in economics and psychology and has received advanced training at Northwestern University's executive management program. He was awarded "Faculty Fellow" by the U.S. Mortgage Bankers Association for commitment and excellence in teaching in the School of Mortgage Banking.

Conrad P. Voldstad
Age 59
Director since 2006

From 2002 through 2006, Mr. Voldstad was a founding Principal of Arlington Hill Investment Management LLC, which managed Arlington Hill Debt Strategies (Master), Ltd. a Cayman Islands debt and currency hedge fund. From 2001 to 2002, Mr. Voldstad was Chief Executive Officer of Polestar Capital Group, LLC, a structured finance company that developed a proprietary technique for financing tenant improvements associated with commercial real estate leases. In 2000, Mr. Voldstad advised Dresdner Kleinwort Benson regarding its strategy for investment banking in the U.S. From 1988 to 1999, Mr. Voldstad was employed at Merrill Lynch, first in London (1988 to 1997) and then in New York. At Merrill Lynch in London, Mr. Voldstad became the Head of European Debt Markets (1995 to 1997). From 1997 to 1998, he was Co-Head of Global Debt Markets. From 1998 to 1999, he was a member of the Oversight Committee that liquidated the assets and positions of Long Term Capital. Mr. Voldstad began his career at J.P. Morgan & Co. in 1974 where he was employed until 1988. Mr. Voldstad has a J.D. degree from Fordham University, an M.B.A. from the Amos Tuck School of Business at Dartmouth College and a B.A. degree from Boston College. Mr. Voldstad is a member of the Board of Overseers at the Amos Tuck School.

Executive Biographies

Set forth below is biographical information concerning each current executive officer who is not a director. **The biographical information for Mr. Endo, our President and Chief Executive Officer, and Ms. Guest, our General Counsel and Secretary, is included above at "Director Biographies".** Subject to rights pursuant to any employment agreements, officers serve at the pleasure of our Board of Directors.

Edward U. Gilpin
Age 47

Chief Financial Officer

Mr. Gilpin joined us in January, 2008 from ACA Capital (OTC BB: ACAH.PK), a holding company that provides asset management services and credit protection products, where he was Executive Vice President and Chief Financial Officer and a Director. Prior to joining ACA Capital in 2001, Mr. Gilpin was Vice President in the Financial Institutions Group at Prudential Securities, Inc.'s investment banking division. From 1998-2000, Mr. Gilpin served in the capacity of chief financial officer for an ACA Capital affiliated 'AAA' start-up venture, developing the financial plans and spearheading the capital raising process. From 1991-1998, Mr. Gilpin was with MBIA, Inc., holding various positions in the finance area. His most recent position with MBIA was Director, Chief of Staff for MBIA Insurance Company's President. Mr. Gilpin began his career as an Assistant Vice President in the Mutual Funds Department of BHC Securities, Inc. Mr. Gilpin holds an

M.B.A. from Columbia University and a B.S. from St. Lawrence University.

David K. Steel
Age 51

Chief Risk Manager
Mr. Steel has been our Chief Risk Manager since 2005. In this role, Mr. Steel is responsible for credit policy and approval, portfolio surveillance, risk reporting, loss reserving and treaty negotiations. Mr. Steel joined us in August 2005 from Hanover Capital Mortgage Holdings, Inc. where he was a Managing Director and Portfolio Manager. Prior to Hanover, Mr. Steel served as head of the Domestic Mortgage Insurance and Reinsurance business at ACE Capital Re, Inc. from 2002 to 2004. Prior to ACE, Mr. Steel worked at FGIC from 1990 to 2002 where he was a member of the corporate leadership team and headed the Mortgage-Backed Securities and Investments business. He began his career at Lehman Brothers in 1984. Mr. Steel holds an M.B.A. from the University of California, Los Angeles and a B.S. from California State University, Sacramento.

Board of Directors Committees

We have an audit committee, a compensation committee, a nominating and corporate governance committee, and a risk management committee.

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Risk Management Committee
Edward F. Bader	X*	X		
David L. Boyle	X			X*
Allan S. Bufferd			X*	X
Joseph M. Donovan				X
Vernon M. Endo				
Victoria W. Guest				
Michael J. Normile		X		
Lloyd A. Porter				
Steven J. Tynan	X	X	X	X
Conrad P. Voldstad		X*		X

* Chairman

The composition of any or all committees may change, subject to the results of elections of directors at shareholders' meetings or for other reasons. Additionally, we may from time to time form other committees as circumstances warrant with such authorities and responsibilities as are delegated by our board.

Equity Compensation of Directors

The table below sets forth the aggregate number of shares underlying option awards outstanding at fiscal year end 2008 for each director who has received option awards (other than Mr. Endo).

Name	Shares Underlying Options at FYE 2008 (#)
Edward F. Bader	20,800
David L. Boyle	18,200
Allan S. Bufferd	15,600
Joan H. Dillard*	13,000
Joseph M. Donovan	13,000

Name	Shares Underlying Options at FYE 2008 (#)
Michael J. Normile	13,000
Dirk A. Stuurop*	20,800
Conrad P. Voldstad	15,600

* Director served during all or part of 2008 but resigned prior to the date of this report.

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

Equity Compensation of Officers

The following table shows equity awards granted to officers of the Company outstanding at December 31, 2008:

	Option Awards				RSU Awards	
Name	Number of Common Shares Underlying Unexercised Options (#) Exercisable	Number of Common Shares Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares that Have Not Vested (#)	Market Value of Shares or That Have Not Vested ($)(1)
Vernon M. Endo	325,000	0	10.71	11/1/2013	—	—
	75,835	75,836	13.45	5/2/2013	—	—
	19,305	57,915	16.20	2/20/2014	—	—
	—	—	—	—	9,607	3,555
	—	300,000	1.45	3/5/2015	—	—
Edward U. Gilpin	—	50,000	1.75	1/28/2015	—	—
	—	—	—	—	15,000	5,550
	—	—	—	—	38,621	14,290
David K. Steel	112,125	37,375	12.03	6/30/2015	—	—
	18,960	18,961	13.45	5/2/2013	—	—
	12,495	37,487	16.20	2/20/2014	—	—
	—	—	—	—	5,753	2,129
	—	198,500	1.45	3/5/2015	—	—
Victoria W. Guest	27,300	18,200	13.71	1/16/2016	—	—
	3,620	3,621	13.45	5/2/2013	—	—
	4,773	14,321	16.20	2/20/2014	—	—
	—	—	—	—	1,359	503
	—	96,000	1.45	3/5/2015	—	—

(1) Based on the closing price of $0.37 per share on December 31, 2008.

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

Options granted beginning in May 2006 were awarded under our 2006 Equity Plan, described above under "Grants of Plan Based Awards," and vest in four equal installments on the first four anniversaries of the date of grant.

The following table shows options exercised and RSUs vested during 2008:

Name	Option Awards		RSU Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	[(1)]Value Realized on Vesting ($)
Vernon M. Endo	—	—	3,202	4,867
Edward U. Gilpin	—	—	—	—
David K. Steel	—	—	1,917	2,914
James P. Gerry	—	—	1,638	2,490
Victoria W. Guest	—	—	452	687

(1) Value based on the closing price of RAM Holdings common shares of $1.52 on February 20, 2008.

Director Service Contracts

There are no service contracts with directors, except for (i) an employment agreement with Mr. Endo which expires March 31, 2010 and (ii) an employment agreement with Ms. Guest which expires January 16, 2010.

Security Ownership of Certain Beneficial Owners, Officers and Directors

The following table sets forth information as of December 31, 2008 with respect to the beneficial ownership of our common shares by owners of more than 5% of our common shares that publicly report their ownership and by all executive officers, directors and nominee directors as a group. As of December 31, 2008, there were 27,251,595 common shares issued and outstanding.

	Beneficial Ownership as of December 31, 2008	
	Number of Common Shares	Percent of Class (%)
5% Shareholders		
PMI Mortgage Insurance Co.	6,453,395	23.7
Wellington Management Company, LLP	2,336,728	8.6
High Ridge Capital Partners Limited Partnership	2,453,048	9.0
Bank of America	1,881,951	6.9
All directors and executive officers, as a group (16 persons)	4,557,804	16.7

Related Party Transactions

In December 2003, our shareholder, PMI and our former shareholder, CIVC Partners, became investors in FGIC Corporation, an insurance holding company whose subsidiary FGIC was one of the four largest U.S. based primary financial guaranty insurance companies. In the ordinary course of business prior to 2008, we have entered into facultative reinsurance agreements with FGIC. Effective March 1, 2007, we entered into a quota share reinsurance treaty agreement with FGIC which terminated effective February 28, 2008. In 2008 and 2007, gross written premiums ceded from FGIC accounted for 7% and 26% of total assumed premiums written by us (including premiums on credit derivative polices and before return of premiums on commutations). There were no amounts due from FGIC as of December 31, 2008 or 2007. Effective December 1, 2008, RAM settled disputes with FGIC under certain reinsurance agreements for a payment of $3.1 million.

Banc of America Securities LLC may be deemed a related party of RAM Holdings because Banc of America may be deemed a beneficial owner of more than 5% of the common shares of RAM Holdings, as disclosed in a 13G filing by Bank of America on February 12, 2009. In June of 2007, Banc of America Securities acted as the underwriter for a secondary offering of our common shares. Although RAM Holdings was responsible for the expenses of the offering, other than underwriting discounts and commissions, Banc of America Securities agreed to bear $50,000 of its expenses and as a result the net amount RAM Holdings paid to Banc of America Securities was $2,669 of "road show" expenses. In December 2007, at which time RAM Holdings believed that Bank of America was not a related party based on the most recent public filings, RAM Holdings engaged Banc of America Securities to provide advisory services in connection with a review of capital structure alternatives. In that engagement

agreement, which was subsequently ratified by the Audit Committee, RAM Holdings agreed to reimburse Banc of America Securities for certain expenses and to engage Banc of America Securities on customary terms in connection with any financing as the placement agent, sole-book running, lead underwriter or equivalent. No amounts were paid to Banc of America Securities in 2007 under the engagement agreement. RAM Holdings paid $100,000 to Banc of America Securities in 2008 for advisory services under the engagement agreement and terminated the engagement agreement effective July 31, 2008.

RAM Holdings Corporate Information

Corporate Headquarters

RAM Re House
46 Reid Street
Hamilton
HM 12 Bermuda
441-296-6501
www.ramre.com

Investor Information

Information about RAM Holdings, including all quarterly earnings releases and reports, can be accessed via our website at www.ramre.com under Investor Information.

Requests for copies of the RAM Holdings 2008 annual report may be made by contacting the Secretary of RAM Holdings at the Corporate Headquarters address above or info@ramre.com.

Exchange Listing

RAM Holdings' common shares are listed on the Bermuda Stock Exchange (BSX) located at:

Phase 1 – Third Floor, Washington Mall
Church Street
Hamilton, HM 11 Bermuda
441-292-7212 or -7213
www.bsx.com

Transfer Agent

BNY Mellon

Telephone Number:
1-877-296-3711
1-610-382-7833 (Outside the U.S.)
1-888-269-5221 (Hearing Impaired - TDD Phone)

Mailing Address:
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Independent Registered Public Accounting Firm

PricewaterhouseCoopers
Hamilton, Bermuda