# RAM HOLDINGS LTD.

2010 ANNUAL REPORT

**RAM Holdings Ltd.**

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Dear Shareholders:

As the credit crisis subsided and the world economy gradually recovered, in 2010 we continued to execute our strategy to reduce risk and expenses and to preserve capital. We reported full-year 2010 net income available to common shareholders of $11.8 million. More importantly, however, our full-year 2010 net operating income was $5.9 million, which is, in our view, a useful measure of the core financial performance of the Company.

Our 2010 net income was largely impacted by $26.7 million of gains realized on the repurchase of $35.0 million of our senior notes and $15.3 million of our redeemable preference shares. While we are pleased that we were able to generate such gains, we are not anticipating additional repurchases in 2011. Our 2010 net income was also largely impacted by $14.5 million of unrealized losses on credit derivatives. We consider this to be a non-operating item because unrealized losses on credit derivatives converge to zero as credit derivative exposures mature unless there are credit impairments.

Operating earnings were driven by earned premiums of $16.8 million and investment income of $11.5 million as the core assets of our company continue to generate ongoing revenue. Meanwhile, loss development was far lower in 2010 than in 2009, and operating expenses were reduced, resulting in the core operating earnings reported.

Our Company made significant progress in executing its run-off business objectives in 2010. Expense reduction efforts resulted in a 32% decline in operating expenses, from $17.5 million in 2009 to $11.9 million in 2010. Risk reduction efforts, combined with ordinary insured portfolio run-off, resulted in a 32% decline in US residential mortgage-backed securities ("US RMBS") par exposure, from $684 million at year-end 2009 to $464 million at year-end 2010. US RMBS is the asset class most responsible for our recent loss development.

In addition to expense and risk reduction, in 2010 we kept a continued focus on maintenance of effective operations, staff stability and sound corporate governance. To that end, in May 2010, we executed a management agreement with Reid Street Services Ltd. (RSSL) whereby RSSL agreed to employ all of our Company's staff (other than myself) and assumed our leasehold obligations, while charging for services at cost. The RSSL management agreement is aimed at preserving the availability of our staff and infrastructure while allowing us to achieve further cost reduction over time. Essentially, this agreement is intended to convert fixed costs to variable costs that decline over time with the run-off of our financial guaranty reinsurance book.

The run-off of our financial guaranty reinsurance book could take many years assuming our ceding companies do not recapture the portfolio earlier. The projected run-off schedule of total debt service exposure outstanding can be found in our year-end 2010 operating supplement. As indicated therein, over half of our outstanding debt service as of year-end 2010 is projected to remain outstanding at year-end 2020 based on the current debt service schedules.

Thus, we are entering 2011 with what we expect will be a less volatile insured portfolio due to commutation efforts over the past three years, stabilizing and more moderate loss development, adequate capital and liquidity, and a long-term portfolio run-off. Accordingly, we are evaluating the adequacy and availability of our capital to support writing a limited amount of short-term, non-catastrophe, property/casualty reinsurance business in order to enhance overall shareholder value. Any new business undertaken would be subject to Board and regulatory approval.

Our objectives for 2011 are as follows:

- Continue to run-off our financial guaranty exposure with a focus on commuting exposures only if it is economical or reduces troubled exposures and loss volatility.

- Continue to reduce expenses consistent with our business requirements, with particular focus on achieving cost reduction through the RSSL management agreement.

- Explore the opportunity to write short-tail, non-catastrophe property/casualty reinsurance to enhance income and liquidity and complement our long-term financial guaranty run-off.

As you know, Vernon Endo and Ted Gilpin left our company in May 2010 in keeping with our strategic transition. I want to thank them for their contribution to our success in navigating the turbulent markets of the past three years and for positioning our company for the future. I also want to sincerely thank our staff for their dedication and commitment, which was particularly essential during the transition over the past year.

Sincerely,

David K. Steel
President and Chief Executive Officer

**Business**

RAM Holdings Ltd., RAM Holdings II Ltd. 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 Ltd. and RAM Holdings II Ltd., 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. Following the completion of the amalgamation, all of the common shares of RAM Re are held by RAM Holdings Ltd. ("the Company", "RAM Holdings" or ""we", "us" and "our"), the amalgamated entity of RAM Holdings Ltd. and RAM Holdings II Ltd.

On May 2, 2006, the Company completed an initial public offering ("IPO"), and the Company's common shares were thereafter traded on the NASDAQ Global Market under the symbol of "RAMR". Effective May 14, 2009, the Company's common shares were voluntarily delisted from the NASDAQ Global Market and thereafter trade on the Pink Sheets. In addition, the Company obtained a primary listing on the Bermuda Stock Exchange effective May 14, 2009.

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 reinsured with RAM Re as "ceding companies". RAM Re provided reinsurance through treaty and facultative agreements that it maintains with each of its remaining customers. Financial guaranty reinsurance written by RAM Re generally provided 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.

**Recent developments**

The unprecedented deterioration in the U.S. housing market during the latter half of 2007 through 2009 and the resulting lack of liquidity in the capital markets had a substantial adverse impact on the financial guaranty industry generally and the Company in particular. As a result of these adverse developments and the downgrades and subsequent withdrawal of the Company's ratings by Standard & Poor's Ratings Services ("S&P") and by Moody's Investors Service ("Moody's"), the Company has not renewed its reinsurance treaties with the primaries or written any new financial guaranty business since 2009.

**Business strategy**

In response to the economic and rating events referenced above, the Company continued its efforts through 2010 which it began in 2008 to reduce the volatility of its insured portfolio, to reduce its insured risk exposure, to preserve its capital position, to deleverage its balance sheet and to reduce its expenses. The following summarizes the Company's achievements and plans

- Insured portfolio run off: The Company commuted its entire insured portfolio assumed from Syncora Guaranty Re Ltd., MBIA Insurance Corporation, and Ambac Assurance Corporation effective July 25, 2008, November 30, 2008, and April 8, 2009, respectively, along with other smaller commutations throughout 2009, 2010 and the beginning of 2011. The Company does not intend to initiate commutation discussions in the future although may consider offers made by its ceding companies at acceptable prices. In addition, the Company has pursued legal actions against its ceding companies in cases where the Company disputes the validity of cessions made under its treaties or ceded losses. The Company is continuing to run off its existing book of business, which could take many years to accomplish as the longest stated remaining maturity of insured risk in its insured portfolio is approximately 57 years. The run off could be completed sooner if the insured portfolio is recaptured by the ceding companies prior to such maturity.

- Deleveraging and Dividends: During the first half of 2009, the Company completed a common share repurchase program and repurchased $5.0 million of its Senior Notes due 2024 ("Senior Notes"). During the first quarter of 2010, the Company completed a tender offer for its Non-Cumulative Preference Shares, Series A (the "Series A Preference Shares"), pursuant to which 15,300 shares were tendered out of the 75,000 shares outstanding; the Series A Preference Shares are mandatorily redeemable in 2066. The Company also repurchased $10.0 million and $25.0 million of its Senior Notes during the first and second quarters of 2010, respectively. In addition, during the first quarter of 2010, RAM Re completed a tender offer for its perpetual Class B Preference Shares (the "Class B Preference Shares" and, together with the Series A Preference Shares, the "Preference Shares"), pursuant to which 68.00 shares were tendered out of the 500.01 shares outstanding. The Company does not intend to actively pursue repurchases of any additional Preference Shares at this time, but may consider offers presented to the Company if economical and depending on available capital and liquidity.

The dividends on both the Series A Preference Shares and the Class B Preference Shares, which are noncumulative in the case of the Series A Preference Shares and are generally noncumulative in the case of the Class B Preference Shares, were suspended in 2009. The Company is not permitted under the terms of the Series A Preference Shares to pay common share dividends or repurchase common shares unless full dividends for the latest completed dividend period on all Series A Preference Shares have been paid. Accordingly, the Company has no plans at this time to liquidate, to pay common share dividends or to repurchase any of its common shares.

- Reducing expenses: In order to reduce its expenses during 2009, the Company de-listed from the NASDAQ and de-registered its securities under the Securities Exchange Act of 1934. As a result the Company is no longer required to file annual, quarterly and current reports or proxy statements with the U.S. Securities and Exchange Commission (the "SEC"). On March 17, 2009, the Company requested that Moody's Investor Service ("Moody's") withdraw its financial strength rating of RAM Re, and on May 20, 2009, the Company also requested that Standard & Poor's Rating Services ("S&P) withdraw its financial strength rating of RAM Re, which has resulted in the Company no longer paying annual fees to these agencies. RAM Re cancelled its bank soft capital facilities effective May 13, 2009, which provided capital for rating agency purposes only. In addition, at the Annual General Meeting in December 2009, the shareholders approved reductions in the size of both the RAM Holdings and RAM Re Boards to five members from eleven. The Company also completed a number of redundancies throughout 2009 and the beginning of 2010 to reduce staff costs. On May 1, 2010, the Company, RAM Re, Reid Street Services Ltd. ("RSSL") and Orpheus Group Ltd. entered into a Management Agreement whereby RSSL was contracted to provide to both the Company and RAM Re insurance management and administrative services. The fees payable by RAM and RAM Re to RSSL pursuant to the Management Agreement represent an allocation of the cost of the services and leasehold space provided by RSSL to RAM and RAM Re without a profit component. The RSSL management agreement is anticipated to contribute to further cost reduction over time.

- Capital preservation and new business: The Company has not written any financial guaranty business since 2009 and does not intend to write any new financial guaranty business in the future. The Company is currently considering writing other lines of business, specifically short tail, non-catastrophe, property/casualty business which would complement the Company's long tail financial guaranty business and enhance earnings, thereby further supporting the Company's overall capital position. Any new business undertaken would be subject to approval of the Board of Directors and the Company's regulators.

There can be no assurance that the strategies that have been implemented or that will be pursued in the future will improve the Company's business, financial condition, liquidity or results of operations or will not have a material adverse effect on the Company.

## Selected Five Year Financial Data

The following financial information for the five years ended December 31, 2010, has been derived from RAM's Consolidated Financial Statements:

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | | (*Dollars in thousands, unless indicated otherwise*) | | | |
| **Statement of Operations Data**: | | | | | |
| Net earned premiums | 16,763 | 26,735 | 68,577 | 51,005 | 44,292 |
| Net change in fair value of credit derivatives | (21,051) | 38,780 | 7,968 | (171,806) | 3,190 |
| Net investment income | 11,531 | 14,431 | 29,358 | 33,111 | 24,176 |
| Net realized investment gains (losses) | 2,380 | 3,810 | (2,356) | (3,604) | (1,002) |
| Foreign currency gains (losses) | 68 | 473 | (51) | 37 | 60 |
| Net gain on extinguishment of debt and redeemable preference shares | 26,725 | 3,403 | — | — | — |
| Net unrealized gain (loss) on other financial instruments | — | (1,197) | 7,754 | 35,330 | — |
| Total revenues | 36,416 | 86,435 | 111,250 | (55,927) | 70,716 |
| Loss and loss adjustment expenses | 5,737 | 20,684 | 214,828 | 48,026 | (2,781) |
| Acquisition expenses | 6,116 | 18,540 | 30,576 | 18,418 | 16,315 |
| Operating expenses | 11,860 | 17,526 | 16,930 | 13,373 | 13,379 |
| Interest expense | 918 | 2,504 | 8,375 | 8,375 | 2,750 |
| Total expenses | 24,631 | 59,254 | 270,709 | 88,192 | 29,663 |
| Net income (loss) | $ 11,785 | $ 27,181 | $ (159,459) | $ (144,119) | $ 41,053 |
| Non-controlling interest – dividends | — | (922) | — | — | — |
| Net income (loss) available to common | $ 11,785 | $ 26,259 | $ (159,459) | $ (144,119) | $ 41,053 |
| Earnings per share | | | | | |
| Basic | 0.45 | 0.98 | (5.85) | (5.29) | 1.53 |
| Diluted | 0.45 | 0.98 | (5.85) | (5.29) | 1.53 |
| **Balance Sheet Data**: | | | | | |
| Investments and cash | 314,060 | $ 357,976 | $ 438,938 | $ 717,037 | $ 620,578 |
| Reinsurance balance receivable | 17,659 | 22,345 | 1,115 | 3,645 | 3,464 |
| Deferred acquisition costs | 54,870 | 61,900 | 74,795 | 87,304 | 73,838 |
| Total assets | 408,352 | 457,826 | 574,282 | 860,265 | 711,843 |
| Reserve for losses and loss adjustment expense | 52,412 | 56,672 | 95,794 | 63,798 | 14,506 |
| Unearned premiums | 133,666 | 153,430 | 158,594 | 239,957 | 192,641 |
| Unsecured senior notes | — | 35,000 | 40,000 | 40,000 | 40,000 |
| Redeemable preference shares | 59,700 | 75,000 | 75,000 | 75,000 | 75,000 |
| Derivative liability | 63,525 | 50,135 | 85,354 | 180,589 | 1,621 |
| Total liabilities | 310,551 | 373,906 | 484,924 | 607,953 | 332,576 |
| Accumulated other comprehensive (loss) income | 10,813 | 7,400 | 6,331 | 10,888 | (5,497) |
| Non-controlling interest Class B preference shares | 7,011 | 8,114 | — | — | — |
| Shareholders' equity | 90,790 | 75,806 | 89,358 | 252,313 | 379,267 |
| Equity | 97,801 | 83,920 | 89,358 | 252,313 | 379,267 |
| Book value per share | $ 3.44 | $ 2.88 | $ 3.28 | $ 9.26 | $ 13.93 |

(1) Certain reclassifications have been made to the prior year's amounts to conform to the current year's presentation.

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | | (*Dollars in thousands, unless indicated otherwise*) | | | |
| **Financial Ratios (Based on U.S. GAAP Income Statement Data)**: | | | | | |
| Loss and loss adjustment expense ratio[1] | 34.2% | 77.4% | 313.3% | 94.2% | (6.3)% |
| Acquisition expense ratio[2] | 36.5% | 69.3% | 44.6% | 36.1% | 36.8% |
| Operating expense ratio[3] | 70.8% | 65.6% | 24.7% | 26.2% | 30.2% |
| Combined ratio[4] | 141.5% | 212.3% | 382.6% | 156.5% | 60.7% |
| **Non-GAAP Supplemental Data**: | | | | | |
| Net par outstanding (in millions) | 18,506 | 20,361 | 29,957 | 45,394 | 31,119 |
| Net debt service outstanding (in millions) | 29,448 | 32,601 | 50,737 | 71,911 | 50,944 |

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

**Management's analysis of results of operations**

*Year ended December 31, 2010, compared to December 31, 2009:*

*Net income available to common shareholders:* Net income available to common shareholders for the full year 2010 was $11.8 million, or net income of $0.45 per diluted share, compared to net income of $26.3 million, or net income of $0.98 per diluted share, for the full year 2009.

The net income available to common shareholders of $11.8 million for the year ended December 31, 2010, was primarily due to the following factors:

- A gain on the repurchase of the Company's Series A Preference Shares of $11.5 million and gains on the repurchase of the Company's remaining Senior Notes of $15.3 million.
- These gains were offset by unrealized losses on credit derivatives of $(14.5) million, primarily due to (i) a decrease in the adjustment for RAM's own non-performance risk partially offset by (ii) the narrowing credit spreads in the market resulting in a decrease in gross unrealized losses. Gross unrealized losses on credit derivatives are offset by the adjustment for the Company's own non-performance risk in accordance with fair value accounting standards. The effect of this adjustment for the Company's own non-performance risk was a reduction in RAM's derivative liability of approximately $71.3 million at December 31, 2010.

Net income of $26.3 million for the year ended December 31, 2009, was primarily due to the following factors:

- Unrealized gains on credit derivatives of $34.5 million, primarily due to the narrowing credit spreads in the market resulting in a decrease in gross unrealized losses. Gross unrealized losses on credit derivatives were offset by the adjustment for the Company's own non-performance risk in accordance with fair value accounting standards. The effect of this adjustment for the Company's own non-performance risk was a reduction in the Company's derivative liability of approximately $146.8 million at December 31, 2009.
- These gains were offset by loss and loss adjustment expenses of $20.7 million during the year ended December 31, 2009. These losses are primarily the result of continued adverse developments on the Company's exposure to insured transactions with U.S. residential mortgage-backed security ("RMBS") exposures, particularly subprime, Home Equity Lines of Credit ("HELOC") and Alt-A transactions from the 2005 – 2007 vintages.

*Commutations:*

The following commutations were completed during the years ended December 31, 2010 and 2009, which affected net income as follows:

<u>Assured commutation</u>

On December 22, 2010, RAM Re entered into a Settlement, Reassumption and Release Agreement (the "Assured Commutation Agreement") with Assured Guaranty Corp. ("Assured"). The Assured Commutation Agreement provided, among other things, for RAM Re to make a $10.3 million payment to commute seven policies previously assumed from Assured, with par in-force of $123.0 million, primarily relating to RMBS securities. In return, each party was released from all liabilities and obligations of the commuted policies.

The effect of the Assured commutation on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $0.1 million, resulting in no impact on earned premiums, (ii) increase net change in fair value of credit derivatives by a gain of $11.1 million, made up of a decrease in unrealized losses of $19.5 million, offset by realized losses of $8.4 million, and (iii) increase losses and loss adjustment expenses by $0.4 million, resulting in an overall gain to net income at the time of commutation of $10.7 million.

<u>Ambac commutation</u>

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 $6.8 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 Ambac Commutation Agreement became effective on April 8, 2009.

The effect of the Ambac commutation on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $155.5 million, resulting in no impact on earned premiums, and (ii) decrease loss and loss adjustment expenses by $8.7 million, resulting in an overall gain to net income at the time of commutation of $8.7 million.

Other commutations

During 2009, the Company completed two other commutations with ceding companies and a retrocessionaire, reducing net outstanding par exposure in RAM Re's insured portfolio by $0.3 billion for net payments totaling $0.9 million. The effect of these commutations on the Company's consolidated results of operations was to (i) decrease gross written premiums and unearned premiums by $1.1 million, (ii) decrease ceded reinsurance premiums and prepaid reinsurance premiums by $1.0 million with no impact on earned premium, (iii) increase net change in fair value of credit derivatives by a gain of $0.9 million, and (iv) increase paid losses by $1.0 million, resulting in an overall reduction to net income of $0.1 million. In addition, as discussed in Note 24 – Subsequent events to the Consolidated Financial Statements included herein, we entered into an additional commutation arrangement with one of our ceding companies in February 2011.

*Summary of results of operations:*

*Net Earned Premiums:* Net earned premiums in 2010 of $16.8 million were 37% lower than the $26.7 million earned in 2009. By eliminating accelerated premiums from refundings of $2.5 million from total earned premiums, normal earned premiums in 2010 were $14.3 million, 11% lower than the comparative 2009 period, which included accelerated premiums from refundings of $10.6 million. The decline in the 2010 earned premiums after refundings primarily reflected the reduction in ongoing earnings due to the commutation of the treaty with Ambac in the second quarter of 2009.

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

| | Years ended December 31, | |
|---|---|---|
| | **2010** | **2009** |
| **Change in fair value of credit derivatives:** | | |
| Credit derivative premiums received and receivable | $ 7,487,248 | $ 7,720,462 |
| Expenses on credit derivatives | (2,722,922) | (3,343,075) |
| Losses and loss adjustment expenses | (11,277,139) | (87,571) |
| **Realized (losses)/gains and other settlements** | (6,512,813) | 4,289,816 |
| **Unrealized (losses)/gains** | (14,537,866) | 34,490,512 |
| **Net change in fair value of credit derivatives** | $ (21,050,679) | $ 38,780,328 |

Net change in fair value of credit derivatives totaled a loss of $(21.1) million in 2010, which was $59.9 million below the $38.8 million gain in 2009. Net change in fair value of credit derivatives for the years ended December 31, 2010 and 2009, were comprised of $(14.5) million and $34.5 million of unrealized gains (losses) on derivatives, respectively, and $(6.5) million and $4.3 million of realized gains (losses), respectively. The increase in the unrealized losses in 2010 is primarily due to the decrease in the adjustment for the Company's own non-performance risk offset by a reduction in the gross unrealized losses. Gross unrealized losses on credit derivative policies decreased in 2010 primarily due to improvements in pricing across the portfolio along with the reduction of unrealized losses on commutation of a number of credit derivative policies with Assured. Gross unrealized gains (losses) on credit derivatives in 2010 and 2009, were offset by the adjustment for the Company's own non-performance risk in accordance with fair value accounting standards. The effect of this adjustment for the Company's own non-performance risk was a reduction in the Company's derivative liability of approximately $71.3 million and $146.8 million at December 31, 2010 and 2009, respectively.

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 $7.5 million in 2010, a decrease of $0.2 million from the $7.7 million in 2009. The decrease is primarily related to the reduction in the Company's insured portfolio. Included within realized losses was $8.4 million of realized losses associated with the commutation with Assured as discussed above.

*Net Investment Income:* Net investment income for 2010 was $11.5 million, 20% below the $14.4 million recorded in 2009. The decrease in investment income in 2010 over the prior year's comparative period was primarily the result of a decrease in cash and invested assets due to payments on commutations in 2009 totaling $99.2 million, together with a decrease of $25.3 million in cash and invested assets during the first half of 2010 due to payments associated with the repurchases of the Company's Senior Notes, a portion of the Series A Preference Shares of the Company and a portion of the Class B Preference Shares of RAM Re. The decrease in investment income is also due to a decline in the book yield on the invested assets from 3.7% to 3.4% as of December 31, 2010.

*Net Realized Gains on Investments and Net Other-Than-Temporary Impairment Losses:* Net realized gains on investments for the year ended December 31, 2010, were $2.4 million compared to $8.9 million for the comparative 2009 period, offset by immaterial and $5.1 million of other-than-temporary impairment losses, respectively.

During the year ended December 31, 2010, the Company recognized immaterial other than temporary impairments ("OTTI") on an investment with subprime exposure. During 2009, the Company recognized $0.9 million relating to an investment with subprime exposure, the fair value of this investment was $0.3 million at December 31, 2009, and a credit loss of $0.1 million was taken on another bond with subprime exposure, the fair value of this security was $0.1 million at December 31, 2009. OTTI of $2.0 million was recognized on securities which the Company had the intent to sell in the period and a loss of $2.1 million was recognized on a corporate bond which the Company believed to be other than temporarily impaired in the first quarter of 2009. On implementation of new guidance issued by the Financial Accounting Standards Board ("FASB") on OTTI during the second quarter of 2009, $1.9 million of this OTTI was reversed through retained earnings to leave only the credit portion of the loss in retained earnings.

*Net Gain on Extinguishment of Redeemable preference shares and Deb*t: During the year ended December 31, 2010 the Company purchased $35.0 million of its remaining Senior Notes for $19.7 million, realizing a gain of $15.3 million. During the comparable 2009 period, the Company purchased $5.0 million of its $40.0 million Senior Notes for $1.6 million, realizing a gain of $3.4 million. The Senior Notes that were repurchased were cancelled immediately after such repurchases. During the year ended December 31, 2010 the Company purchased $15.3 million of its Series A Preference Shares for $3.8 million realizing a gain of $11.5 million.

*Loss and Loss Adjustment Expenses:* Loss and loss adjustment expenses for the year ended December 31, 2010 were $5.7 million, or a loss ratio of 34%. The improvement in the 2010 loss ratio was attributable to several factors including improved delinquency experience and an increase in representation and warranties repurchase credits on the Company's exposure to insured RMBS transactions. Loss and loss adjustment expenses for the year ended December 31, 2009, were $20.7 million, contributing to a loss ratio of 78%. This loss ratio was primarily the result of adverse developments on the Company's exposure to insured transactions with residential mortgage-backed security ("RMBS") exposures, particularly subprime, Home Equity Lines of Credit ("HELOC") and Alt-A transactions from the 2005 – 2007 vintages.

*Acquisition Expenses:* Acquisition expenses for the years ended December 31, 2010 and 2009, were $6.1 million and $18.5 million, respectively. The decrease in acquisition expenses in 2010 as compared to 2009 was primarily due to the following items: (i) the write off in 2009, of **$**4.4 million of Deferred Acquisition Costs ("DAC") which were not considered recoverable, (ii) an increase in 2009 in the recognition of previously deferred operating expenses of $1.9 million due to a commutation during the second quarter of 2009 and (iii) a $1.3 million credit to acquisition expenses in 2010 due to the early termination on an installment contract where the DAC had previously been expensed as part of the Company's DAC deficiency review noted above. Each period changes in premiums written and related acquisition costs are made on installment policies, and any change in written premiums or acquisition expenses is normally offset by a corresponding change in unearned premium or deferred acquisition costs ("DAC"), respectively, in accordance with ASC 944-20. During the fourth quarter 2010, due to the early termination of an installment policy, there was an adjustment to premiums written and unearned premiums, with no effect on earned premium. There was a corresponding decrease in acquisition costs; however, as discussed above, the associated DAC had previously been written off in 2009 and therefore the change resulted in a credit to acquisition expenses with no corresponding adjustment to DAC. This resulted in a $1.3 million reduction in acquisition expenses during the fourth quarter 2010. Excluding the above items, acquisition expenses are closely related to earned premiums. Thus, the decrease in acquisition expenses in 2010 as compared to the comparable 2009 period was also due to the decrease in earned premiums in the period.

*Operating Expenses:* Operating expenses for the year ended December 31, 2010, were $11.9 million, compared to $17.5 million for the comparable 2009 period. The decrease in operating expenses for 2010 as compared to 2009 was primarily due to (i) reductions in staff made during 2009 and 2010 and (ii) other expense-reducing measures taken in 2009, such as de-listing from the NASDAQ, suspending the Company's obligation to file reports with the SEC and withdrawal of RAM Re's financial strength ratings, which had their full impact in 2010.

*Interest Expense:* Interest expense was $0.9 million and $2.5 million for the years ended December 31, 2010 and 2009, respectively. The decline in interest expense for the year ended December 31, 2010 was the result of the repurchase of the Company's remaining Senior Notes during 2010.

# RAM Holdings Ltd.

## Consolidated Financial Statements
## For the Year Ended
## December 31, 2010

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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of RAM Holdings Ltd. (the "Company") as of December 31, 2010, and the related consolidated statements of operations, comprehensive income, equity and retained deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended December 31, 2009, were audited by other auditors whose report, dated April 22, 2010, expressed an unqualified opinion on those statements and included an explanatory paragraph that described the adoption of the Financial Guarantee Contracts standard (ASC 944-20) as of January 1, 2009 and the adoption of the Other-Than-Temporary Impairments for Debt Securities standard (ASC 320-10) as of April 1, 2009. In addition, it was noted that the Company had not renewed its reinsurance treaties with any of the primary financial guaranty insurers in 2009 and had no plans to write any further business.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments of debt securities as of April 1, 2009 due to the required adoption of new FASB guidance. As discussed in Note 1 to the consolidated financial statements, the Company has not renewed its reinsurance treaties with the any of the primary financial guaranty insurers or written any new financial guaranty business since 2009.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of their operations and their cash flows for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche Ltd.

May 5, 2011

**RAM Holdings Ltd.**
**Consolidated Balance Sheets**
**December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of $280,807,063 and $338,380,021) | $ 291,620,381 | $ 345,779,503 |
| Cash and cash equivalents | 5,718,195 | 9,311,110 |
| Restricted cash | 16,722,247 | 2,884,962 |
| Accrued investment income | 1,817,815 | 2,243,925 |
| Reinsurance balances receivable, net | 17,659,316 | 22,344,848 |
| Recoverables on paid losses | 19,231,274 | 11,352,701 |
| Deferred policy acquisition costs | 54,870,327 | 61,899,987 |
| Deferred expenses | 520,640 | 1,408,449 |
| Other assets | 192,853 | 600,557 |
| **Total assets** | **$ 408,353,048** | **$ 457,826,042** |
| **LIABILITIES AND EQUITY** | | |
| Liabilities: | | |
| Losses and loss expense reserve | $ 52,411,626 | $ 56,672,359 |
| Unearned premiums | 133,666,192 | 153,429,709 |
| Accounts payable and accrued liabilities | 1,248,172 | 3,050,362 |
| Accrued interest payable | — | 618,750 |
| Derivative liabilities | 63,524,831 | 50,135,456 |
| Long-term debt | — | 35,000,000 |
| Redeemable Series A preference shares ($ 0.10 par value and $1,000 redemption value; authorized shares – 75,000; issued and outstanding shares – 59,700 at December 31 2010 and 75,000 at December 31, 2009) | 59,700,000 | 75,000,000 |
| **Total liabilities** | **310,550,821** | **373,906,636** |
| Commitments and contingencies (See Note 14) | | |
| Shareholders' equity: | | |
| Common shares ($0.10 par value; authorized shares – 90,000,000; issued and outstanding shares – 26,394,564 shares at December 31, 2010 and 26,340,174 shares at December 31, 2009) | 2,639,456 | 2,634,017 |
| Additional paid-in capital | 231,339,583 | 230,961,616 |
| Accumulated other comprehensive income | 10,813,318 | 7,399,482 |
| Retained deficit | (154,000,985) | (165,190,099) |
| **Total shareholders' equity** | **90,791,372** | **75,805,016** |
| Noncontrolling interest – Class B preference shares of subsidiary | 7,010,855 | 8,114,390 |
| **Total equity** | **97,802,227** | **83,919,406** |
| **Total liabilities and equity** | **$ 408,353,048** | **$ 457,826,042** |



See Accompanying Notes to Consolidated Financial Statements.

## RAM Holdings Ltd.
## Consolidated Statements of Operations

| | Years Ended December 31, 2010 | 2009 |
|---|---|---|
| **Revenues:** | | |
| Net premiums earned | $ 16,763,488 | $ 26,735,070 |
| Change in fair value of credit derivatives: | | |
| Realized gains (losses) and other settlements | (6,512,813 ) | 4,289,816 |
| Unrealized gains (losses) | (14,537,866 ) | 34,490,512 |
| Net change in fair value of credit derivatives | (21,050,679 ) | 38,780,328 |
| Net investment income | 11,531,428 | 14,431,199 |
| Net realized gains on sale of investments | 2,389,022 | 8,866,857 |
| Total other-than-temporary impairment losses | (32,500 ) | (4,939,273) |
| Portion of impairment losses recognized in other comprehensive income (loss) | 23,504 | (118,323) |
| Net other-than-temporary impairment losses recognized in earnings | (8,996 ) | (5,057,596 ) |
| Net unrealized loss on other financial instruments | — | (1,196,760 ) |
| Foreign currency gains | 68,425 | 472,775 |
| Net gain on extinguishment of long-term debt | 15,250,000 | 3,403,040 |
| Net gain on extinguishment of redeemable Series A preference shares | 11,475,000 | — |
| **Total revenues** | **36,417,688** | **86,434,913** |
| **Expenses:** | | |
| Loss and loss adjustment expenses | 5,737,144 | 20,683,918 |
| Acquisition expenses | 6,116,210 | 18,540,173 |
| Operating expenses | 11,860,179 | 17,526,345 |
| Interest expense | 918,576 | 2,503,724 |
| **Total expenses** | **24,632,109** | **59,254,160** |
| **Net income** | **$ 11,785,579** | **$ 27,180,753** |
| Noncontrolling interest – dividends on Class B preference shares of subsidiary | — | (921,743) |
| **Net income available to common shareholders** | **$ 11,785,579** | **$ 26,259,010** |
| Net income per common share: | | |
| Basic | $ 0.45 | $ 0.98 |
| Diluted | $ 0.45 | $ 0.98 |
| Weighted-average number of common shares outstanding: | | |
| Basic | 26,379,781 | 26,720,456 |
| Diluted | 26,381,096 | 26,720,456 |



See Accompanying Notes to Consolidated Financial Statements.

**RAM Holdings Ltd.**
**Consolidated Statements of Comprehensive Income**

| | Years Ended December 31, | |
|---|---|---|
| | **2010** | **2009** |
| **Net income** | $ 11,785,579 | $ 27,180,753 |
| **Other comprehensive income** | | |
| Change in unrealized fair value of investments | 5,817,366 | 7,491,683 |
| Less: Reclassification adjustment for net realized (gains) losses included in net income | (2,389,022) | (8,866,857) |
| Less: Net other-than-temporary impairment losses recognized in earnings | 8,996 | 5,057,596 |
| Portion of impairment losses recognized in other comprehensive income | (23,504) | 118,323 |
| Other comprehensive income | 3,413,836 | 3,800,745 |
| **Comprehensive income** | **$ 15,199,415** | **$ 30,981,498** |

See Accompanying Notes to Consolidated Financial Statements.

**RAM Holdings Ltd.**
**Consolidated Statements of Equity and Retained Deficit**

| | Share capital | Noncontrolling interest in subsidiary | Additional paid-in capital | Accumulated other comprehensive income | Retained deficit | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 2009 | 2,725,160 | — | 230,438,128 | 6,331,496 | (150,136,895) | 89,357,889 |
| Cumulative effect of ASC 944-20, effective January 1, 2009 | — | — | — | — | (43,840,968) | (43,840,968) |
| Share issuance | 3,157 | 8,114,390 | (3,157) | — | — | 8,114,390 |
| Share based compensation | — | — | 526,645 | — | — | 526,645 |
| Net income | — | 921,743 | — | — | 26,259,010 | 27,180,753 |
| Cumulative effect of adopting of ASC 320-10, effective April 1, 2009 | — | — | — | (2,732,759) | 2,732,759 | — |
| Dividends on Class B preference shares of subsidiary | — | (921,743) | — | — | — | (921,743) |
| Non credit component of impairment losses on available-for-sale securities | — | — | — | 118,323 | — | 118,323 |
| Net change in unrealized gains and losses on available-for-sale securities | — | — | — | 3,682,422 | — | 3,682,422 |
| Treasury shares reacquired | (94,300) | — | — | — | (204,005) | (298,305) |
| Balance, December 31, 2009 | $ 2,634,017 | 8,114,390 | 230,961,616 | 7,399,482 | (165,190,099) | 83,919,406 |
| Share issuance | 5,439 | — | (5,439) | — | — | — |
| Share based compensation | — | — | 383,406 | — | — | 383,406 |
| Net income | — | — | — | — | 11,785,579 | 11,785,579 |
| Non credit component of impairment losses on available-for-sale securities | — | — | — | (23,504) | — | (23,504) |
| Net change in unrealized gains and losses on available-for-sale securities | — | — | — | 3,437,340 | — | 3,437,340 |
| Repurchase of noncontrolling interest in subsidiary | — | (1,103,535) | — | — | (596,465) | (1,700,000) |
| Balance, December 31, 2010 | $ 2,639,456 | 7,010,855 | 231,339,583 | 10,813,318 | (154,000,985) | 97,802,227 |

See Accompanying Notes to Consolidated Financial Statements.

## RAM Holdings Ltd.
## Consolidated Statements of Cash Flows

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income for the year | $ | 11,785,579 | $ | 27,180,753 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | | |
| Net realized gains on sale of investments | | (2,389,022) | | (8,866,857) |
| Net other-than-temporary impairment losses recognized in earnings | | 8,996 | | 5,057,596 |
| Foreign currency losses (gains) on revaluation | | 79,237 | | (498,724) |
| Net unrealized losses (gains) on credit derivatives | | 14,537,866 | | (34,490,512) |
| Net unrealized loss on other financial instruments | | — | | 1,196,760 |
| Net gain on extinguishment of long-term debt | | (15,250,000) | | (3,403,040) |
| Net gain on extinguishment of redeemable Series A preference shares | | (11,475,000) | | — |
| Depreciation and amortization | | 921,149 | | 221,243 |
| Amortization of debt discount | | 89,399 | | 6,280 |
| Amortization of bond premium and discount | | 360,546 | | 1,084,544 |
| Share based compensation | | 383,406 | | 526,645 |
| Changes in assets and liabilities: | | | | |
| Accrued investment income | | 426,110 | | 2,193,711 |
| Reinsurance balances receivable, net | | 4,606,295 | | 65,538,030 |
| Recoverables on paid losses | | (7,878,573) | | (9,183,122) |
| Deferred policy acquisition costs | | 7,029,660 | | 67,603,931 |
| Prepaid reinsurance premiums | | — | | 1,880,816 |
| Other assets | | 292,531 | | 3,922,312 |
| Losses and loss adjustment expenses | | (4,260,733) | | (65,360,753) |
| Unearned premiums | | (19,763,517) | | (181,193,971) |
| Derivative liability | | (1,148,491) | | (727,702) |
| Reinsurance balances payable | | — | | (7,825,060) |
| Accounts payable, accrued liabilities and interest payable | | (2,420,940) | | 482,002 |
| **Net cash used in operating activities** | | **(24,065,502)** | | **(134,655,118)** |
| | | | | |
| Cash flows from investing activities: | | | | |
| Purchases of investments | | (85,924,460) | | (196,923,687) |
| Proceeds from sales of investments | | 104,320,257 | | 238,776,651 |
| Proceeds on maturities of investments | | 41,196,640 | | 40,783,243 |
| Net change in restricted cash | | (13,837,285) | | 5,399,497 |
| Purchases of fixed assets | | (7,565) | | (16,530) |
| **Net cash provided by investing activities** | | **45,747,587** | | **88,019,174** |
| | | | | |
| Cash flows from financing activities: | | | | |
| Dividends on Class B preference shares of subsidiary | | — | | (921,743) |
| Net proceeds from issuance of Class B preference shares | | — | | 50,001,000 |
| Purchase of treasury stock | | — | | (298,305) |
| Repurchase of redeemable Series A preference shares | | (3,825,000) | | — |
| Repurchase of long-term debt | | (19,750,000) | | (1,596,960) |
| Repurchase of noncontrolling interest in subsidiary | | (1,700,000) | | — |
| **Net cash (used in) provided by financing activities** | $ | **(25,275,000)** | $ | **47,183,992** |
| | | | | |
| **Net (decrease) increase in cash and cash equivalents** | | **(3,592,915)** | | **548,048** |
| Cash and cash equivalents – Beginning of year | | 9,311,110 | | 8,763,062 |
| | | | | |
| **Cash and cash equivalents – End of year** | $ | **5,718,195** | $ | **9,311,110** |
| Supplemental cash flow disclosure: | | | | |
| Interest paid on long-term debt | $ | 1,537,326 | $ | 2,578,125 |

See Accompanying Notes to Consolidated Financial Statements.

**RAM Holdings Ltd.**
**Notes to Consolidated Financial Statements**

## 1 BACKGROUND

RAM Holdings Ltd., RAM Holdings II Ltd. 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 Ltd. and RAM Holdings II Ltd., 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. Following the completion of the amalgamation, all of the common shares of RAM Re are held by RAM Holdings Ltd. ("the Company", "RAM Holdings" or "we", "us" and "our"), the amalgamated entity of RAM Holdings Ltd. and RAM Holdings II Ltd.

On May 2, 2006, the Company completed an initial public offering ("IPO"), and the Company's common shares were thereafter traded on the NASDAQ Global Market under the symbol of "RAMR". Effective May 14, 2009, the Company's common shares were voluntarily delisted from the NASDAQ Global Market and thereafter trade on the Pink Sheets. In addition, the Company obtained a primary listing on the Bermuda Stock Exchange effective May 14, 2009.

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 reinsured with RAM Re as "ceding companies". RAM Re provided reinsurance through treaty and facultative agreements that it maintains with each of its remaining customers. Financial guaranty reinsurance written by RAM Re generally provided 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.

### Recent developments

The unprecedented deterioration in the U.S. housing market during the latter half of 2007 through 2009 and the resulting lack of liquidity in the capital markets had a substantial adverse impact on the financial guaranty industry generally and the Company in particular. As a result of these adverse developments and the downgrades and subsequent withdrawal of the Company's ratings by Standard & Poor's Ratings Services ("S&P") and by Moody's Investors Service ("Moody's"), the Company has not renewed its reinsurance treaties with the primaries or written any new financial guaranty business since 2009. Refer to Note 14 – Commitments and Contingencies and Note 24 - Subsequent Events for further details of events occurring subsequent to the year end.

### Business strategy

In response to the economic and rating events referenced above, the Company continued its efforts through 2010 which it began in 2008 to reduce the volatility of its insured portfolio, to reduce its insured risk exposure, to preserve its capital position, to deleverage its balance sheet and to reduce its expenses. Since 2008, the Company has commuted a significant portion of its insured portfolio, including exposures in troubled sectors such as US residential mortgage-backed securities ("RMBS"), asset-backed collateralized debt obligations ("CDOs") backed by RMBS and CDOs backed by commercial mortgage-backed securities ("CMBS"). In addition, the Company has significantly reduced its operating expenses. At the present time, the Company does not intend to reenter the financial guaranty market; however, the Company is considering writing other lines of business, such as short-term, non-catastrophe, property/casualty reinsurance business. Any new business undertaken would be subject to Board of Directors and regulatory approval. There can be no assurance that the strategies that have been implemented or that will be pursued in the future will improve the Company's business, financial condition, liquidity or results of operations or will not have a material adverse effect on the Company. Management believes that the Company has sufficient capital resources and liquidity to meet its obligations for at least the next twelve months and therefore that the Company remains a "going concern". See Note 15 – Risks and uncertainties, for a discussion on the Company's liquidity.

**Major customers and competitors**

As of January 1, 2009, our customers were the following 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", Assured Guaranty Municipal Corp. (formerly Financial Security Assurance Inc.), or "AGM", Assured Guaranty (Europe) Ltd., or "AGE" (formerly Financial Security Assurance (U.K.) Limited) and together with AGM, "FSA", and Syncora Guaranty Inc. (formerly XL Capital Assurance Inc.).

During 2009, the Company commuted its entire insured portfolio assumed from Ambac and CIFG **(**see Note 13 - Commutations). As a result, the Company's entire insured portfolio outstanding as of December 31, 2010, consisted of business assumed from Assured Guaranty, FGIC, FSA and Syncora Guaranty Inc.

The Company has not renewed reinsurance treaties with any of the primaries in 2009 or 2010 and does not intend to write any new financial guaranty business. This means that we do not expect to write any new financial guaranty reinsurance but this does not reduce our in-force business, unless the business is commuted or recaptured by the primaries. We are not competing in the financial guaranty reinsurance market and we believe that Assured Guaranty Re is our only historical competitor that continues to write financial guaranty reinsurance.

## 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 the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ materially from those estimates.

(b) **Basis of consolidation**

The consolidated accounts of RAM 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. Cash equivalents are carried at cost which approximates fair value.

(d) **Investments**

The Company has classified its fixed-maturity investments as available for sale. 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 "net realized gains (losses) on sale of investments" 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. 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.

**Other-than-temporary Impairments on Investments**
In April 2009, the Financial Accounting Standards Board ("FASB") issued new guidance on the recognition and presentation of an other-than-temporary impairment ("OTTI") for debt securities classified as available-for-sale and held-to-maturity and also provided some new disclosure requirements for both debt and equity securities (ASC 320-10). The Company adopted this guidance effective April 1, 2009. Under the new guidance, an impairment is considered to be other-than-temporary if the Company (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the Company does not intend to sell). A "credit loss" is recognized when the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. If there is an intent to sell the impaired security, then the full OTTI is recognized in earnings in the period. If there is no intent to sell the impaired security but there is a credit loss then the credit loss portion of the unrealized loss is recognized in earnings with the remainder recognized in other comprehensive income. The new guidance requires that the full OTTI is presented on the statement of operations with an offset for any amounts recognized in other comprehensive income. The Company adopted this guidance for the period ending June 30, 2009.

The new guidance required that the Company record, as of the beginning of the interim period of adoption, a cumulative effect adjustment to reclassify the noncredit component of a previously recognized OTTI from retained earnings to other comprehensive income (loss). For purposes of calculating the cumulative effect adjustment, the Company reviewed OTTI it had recorded through realized losses on securities held at April 1, 2009 where there was no intent to sell, which amounted to $16.1 million, and estimated the portion related to credit losses (i.e., where the present value of cash flows expected to be collected are lower than the amortized cost basis of the security) and the portion related to all other factors. The Company determined that $13.4 million of the OTTI previously recorded related to specific credit losses and $2.7 million related to all other factors. The Company therefore increased the amortized cost basis of these debt securities by $2.7 million and recorded a cumulative effect adjustment to reduce the retained deficit and reduce accumulated other comprehensive income (loss), with no net effect on shareholders' equity.

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 an intent to sell the security.

Prior to April 1, 2009, all declines in fair value below cost that were considered other than temporary were recognized in income.

(e) **Premium revenue recognition**

The Company recognizes a liability for unearned premium revenue at the inception of a financial guaranty insurance contract equal to the present value of the premiums due or expected to be collected over the period of the contract. If the premium is a single amount received at the inception of the contract (i.e. an upfront premium), then the Company records the unearned premium revenue as the amount received. Where premiums are received in installments over the term of the contract then the Company records the unearned premium revenue and a receivable for future premiums as the present value of premiums expected to be collected over the contract period, using a risk free discount rate. The period of a financial guaranty insurance contract is the expected period of risk, which generally equates to the contract period. However, in some instances, the expected period of risk is significantly shorter than the full contract period due to expected prepayments. The expected period of a contract is only used to determine the present value of unearned premium revenue and receivable for future premiums where (i) the financial guaranty contract insures a homogeneous pool of assets that are contractually prepayable, (ii) prepayments are probable and (iii) the amount and timing of prepayments are reasonably estimable. The Company records the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in Note 6 – Financial guaranty contracts accounted for as reinsurance.

The Company recognizes financial guaranty reinsurance contract revenue over the period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding adjustment to decrease unearned premium revenue occurs. The amount of insurance protection provided is a function of the insured principal amount outstanding. The premium revenue for each period is therefore determined by applying a constant rate to the insured principal amount outstanding for the period. The constant rate for each financial guaranty policy is determined by the ratio of (a) the total present value of the premium collected or expected to be collected over the period of the contract, to (b) the sum of all insured principal amounts outstanding during each reporting period over the period of the contract. When the financial obligation is retired prior to its scheduled maturity, the financial guaranty insurance contract on the retired financial obligation is extinguished (referred to as a refunding). The Company immediately recognizes any nonrefundable unearned premium revenue related to that contract as premium revenue in the period the contract is extinguished and any associated acquisition costs previously deferred as an expense.

(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. This also includes a portion of salaries and related costs of underwriting personnel, rating agency fees, and certain other underwriting expenses and management determines on an annual basis which costs vary with and are directly related to the production of new business and therefore qualify for deferral and uses its judgment to determine what percentage of these costs should be deferred. During 2009 and 2010, no such costs were deferred as no new business was written.

Policy acquisition costs related to financial guaranty insurance contracts are deferred and amortized over the period in which the related premiums are earned. Policy acquisition costs related to financial guaranty contracts written in derivative form are expensed as incurred. Effective January 1, 2009, where ceding commissions are paid in installments over the term of the contract, the Company records the deferred acquisition costs and a payable for future ceding commissions as the present value of ceding commissions expected to be paid over the contract period, using a risk free discount rate. The payable on ceding commissions is included within Reinsurance balances receivable, net on the Consolidated Balance Sheets. Total deferred policy acquisition costs amortized during 2010 and 2009 were $5.7 million and $17.8 million, respectively.

When assessing the recoverability of deferred policy acquisition costs, the Company considers the future earnings of premiums 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 deficiency were calculated, the unamortized acquisition costs would be reduced by a charge to expense. During the year ended December 31, 2010 and 2009, the Company wrote off $Nil and $4.4 million of deferred acquisition costs as a result of this testing.

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

The Company establishes loss reserves based on a review of reserving practices, reported reserves, surveillance reports and other data provided by its ceding companies. In addition, the Company augments the ceding company information with its own research, analysis and modeling.

The Company recognizes a claim liability on a financial guaranty insurance contract (excluding those written in derivative form) when the Company estimates that the present value of expected net cash outflows to be paid under the insurance contract will exceed the unearned premium revenue for that contract. The present value of expected net cash outflows is discounted using a current risk free rate based on the remaining period (contractual or expected as applicable) of the insurance contract. Expected net cash outflows are probability weighted cash flows that reflect the likelihood of possible outcomes, based on all information available to the Company.

The Company updates the discount rate each reporting period and revises expected net cash outflows when increases or decreases in the likelihood of a default and potential recoveries occurs. The discount of the loss and loss expenses reserve is accreted through earnings and included in losses and loss adjustment expenses. Changes to the estimate of loss and loss adjustment expenses reserve after initial recognition are recognized in loss and loss adjustment expenses in the consolidated income statement in the period of the change.

The Company reviews the portfolio on a continuous basis to identify problem credits. Quarterly, the Company's Management Committee formally reviews 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 the Company's 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.

(h) **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, certain of these contracts meet the definition of a derivative under ASC 815 "Derivatives and hedging" ("ASC 815"). ASC 815 establishes accounting and reporting standards for derivative instruments, and requires the Company to recognize the derivative instruments on the Consolidated Balance Sheets at their fair value, under "Derivative assets or liabilities", as applicable 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 Statements of Operations. The "Realized gains (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 (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.

Management uses as a key input to the estimation of the fair value of our derivatives, the valuation information provided to us by our ceding companies. The Company 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 the Company's contract allows it to share in the economic results of the underlying contracts, it does not provide rights to the same information to which the ceding companies have access. Under ASC 820, "Fair value measurements and disclosures", the fair value of the Company'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 the Company'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, the Company believes that an exit market participant would look to the information that is available from the ceding companies to determine the exit value of the Company'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. The Company 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 the Company are consistent with macro spread movements and general market trends, and the Company believes that the modeling and assumptions that drive the modeling are reasonable (based on the Company's ceding company reviews and review of publicly available information), the Company 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 in particular on accounting for derivatives, future amendments or interpretations of these standards may cause us to modify our accounting methodology in a manner which may have an adverse impact on our financial results.

ASC 820 "Fair Value Measurements and Disclosures" ("ASC 820") 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). ASC 820 clarifies that fair value is a market-based measurement, not an entity-specific measurement. ASC 820 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 ASC 820, 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 ASC 820 (see Note 4 - Derivative instruments).

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

The put option relating to the Company's prior soft capital facility was a financial instrument and was 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 was recorded on the Consolidated Balance Sheets and changes in fair value were reported through the Consolidated Statements of Operations in "Net unrealized loss on other financial instruments". Valuations were 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. On February 17, 2009, the put option was exercised. The difference between the fair value of the put option at the exercise date and the proceeds received on exercise of the put option has been recorded as the value of the Class B preference shares of RAM Re and is included as a "Noncontrolling interest – Class B preference shares of subsidiary" in the Company's Consolidated Balance Sheets as at December 31, 2010 and 2009. See Note 8 - Contingent capital, credit facilities and noncontrolling interest.

(j) **Recent accounting pronouncements**

**Accounting for Financial Guaranty Insurance Contracts**
On May 23, 2008, the FASB issued a new standard addressing how to account for financial guaranty insurance contracts ("the Standard"). The Standard clarifies how previous accounting literature applies to financial guaranty insurance contracts. The Standard 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.

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, including the accounting and risk management activities used to evaluate credit deterioration in the Company's insured obligations and surveillance lists.

The Standard was 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 were effective for the interim financial statements prepared as of September 30, 2008. The Standard does not apply to policies which are accounted for as credit derivatives. The cumulative effect of adopting the Standard is recognized as an adjustment to opening retained earnings as of January 1, 2009.

The impact of adopting the Standard on the Company's Consolidated Balance Sheet was as follows:

| | December 31, 2008 As reported | Transition Adjustment | January 1, 2009 As adjusted |
|---|---|---|---|
| ASSETS: | | | |
| Reinsurance balances receivable, net (1) | $ 1,115,413 | $ 86,268,741 | $ 87,384,154 |
| Recoverable on paid losses (3) | 1,796,842 | 372,737 | 2,169,579 |
| Deferred policy acquisition costs (2) | 74,795,257 | 54,708,661 | 129,503,918 |
| Prepaid reinsurance premiums (2) | 1,599,174 | 281,642 | 1,880,816 |
| **Total assets** | **$ 574,281,925** | **$ 141,631,781** | **$ 715,913,706** |
| | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | |
| Losses and loss expense reserve (3) | 95,794,254 | 26,238,858 | 122,033,112 |
| Unearned premiums (2) | 158,593,738 | 176,029,942 | 334,623,680 |
| Reinsurance balances payable (1) | 24,621,111 | (16,796,051) | 7,825,060 |
| **Total liabilities** | **$ 484,924,036** | **$ 185,472,749** | **$ 670,396,785** |
| Retained deficit (4) | (150,136,895) | (43,840,968) | (193,977,863) |
| **Total shareholders' equity** | **89,357,889** | **(43,840,968)** | **45,516,921** |
| **Total liabilities and shareholders' equity** | **$ 574,281,925** | **$ 141,631,781** | **$ 715,913,706** |

(1) Reinsurance balances receivable, net and reinsurance balances payable were increased and decreased, respectively, to reflect the net present value of future installment premiums, net of ceding commissions (including the accrual for additional ceding commissions), discounted at a risk free rate.

(2) Unearned premiums and prepaid reinsurance premiums were increased to reflect the change in premium earning methodology under the Standard along with the net present value of installment premiums, on assumed and retroceded policies respectively. Deferred policy acquisition costs increased to reflect the associated acquisition costs on the increased unearned premium balances.

(3) Losses and loss expense reserves and related recoverable, were increased for the new reserving methodology under the Standard. This was offset by a decrease in reserves for the release of the unallocated loss reserves which are not allowed under the Standard.

(4) Retained deficit was increased for the net effect of the transition adjustments as at January 1, 2009.

**Other recent accounting pronouncements**

In October 2010, the FASB issued ASU 2010-26, "Financial Services – Insurance (Topic 944)—Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts." This amendment addresses which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. The new guidance is effective beginning January 1, 2012 with early adoption as of January 1, 2011 permitted. The Company did not elect to early adopt the guidance as of January 1, 2011. The Company is currently evaluating the potential impact of adopting this guidance as of January 1, 2012.

In July 2010, the FASB issued Accounting Standards Update ("ASU") 2010-20, "Receivables (Topic 310)—Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires amended disclosure related to certain financing receivables and related allowance for credit losses. The disclosure provisions are effective for the Company for the year ended December 31, 2010. These amended requirements are related only to disclosures, and do not affect the Company's consolidated balance sheets, results of operations or cash flows. The Company accounts for its insurance premiums receivable in accordance with Accounting Standards Codification ("ASC") 944, "Financial Guaranty Insurance Contracts." Refer to Note 6 - Financial Guaranty Contracts accounted for as reinsurance, for disclosures related to the Company's receivable for insurance premiums.

In March 2010, the FASB issued ASU 2010-11, "Derivatives and Hedging (Topic 815)—Scope Exception Related to Embedded Credit Derivatives," to clarify that embedded credit derivatives created by the subordination of one financial instrument to another qualifies for the scope exception and should not be subject to potential bifurcation and separate accounting. Other embedded credit derivative features are considered embedded derivatives and subject to potential bifurcation, provided that the contract is not a derivative in its entirety. The Company adopted this standard in the third quarter of 2010. The adoption of this standard did not have a material effect on the Company's consolidated balance sheet, results of operations, or cash flows.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements," to require additional disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. In addition, the standard further clarifies existing disclosures about the level of disaggregation, valuation techniques and inputs to fair value measurements. The Company adopted this standard as of the first quarter of 2010 except for the requirement to provide the Level 3 activity of purchases, sales issuances and settlements on a gross basis, which will be effective for the Company as of the first quarter of 2011. As this standard only affects disclosures related to fair value, the adoption of this standard did not affect the Company's consolidated balance sheet, results of operations, or cash flows. Refer to Note 9 - Fair Value of Financial Instruments for these disclosures.

In December 2009, the FASB issued ASU 2009-17, "Consolidations (Topic 810)—Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," to require the holder of a variable interest(s) in a variable interest entity ("VIE") to determine whether it holds a controlling financial interest in a VIE. A holder of a variable interest (or combination of variable interests) that has a controlling financial interest in a VIE is considered the primary beneficiary and is required to consolidate the VIE. The accounting guidance deems controlling financial interest as both (a) the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and (b) the obligation to absorb losses or the rights to receive benefits of the VIE that could potentially be significant to the VIE. This accounting guidance eliminates the more quantitative approach for determining the primary beneficiary of a VIE. The accounting guidance requires an ongoing reassessment of whether a holder of a variable interest is the primary beneficiary of a VIE. The Company adopted this standard in the first quarter of 2010. The adoption of this standard did not have a material effect on the Company's consolidated balance sheet, results of operations, or cash flows as the Company's assessment of its arrangements did not indicate that it has a controlling financial interest in any of the VIEs (that it reinsurers).

(k) **Reclassifications**

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

## 3 PLEDGED ASSETS

As of December 31, 2010, and 2009, the Company had restricted cash of $16.7 million and $2.9 million, respectively, and investments at fair value of $214.8 million and $248.5 million, respectively, in trust and escrow accounts for the benefit of ceding companies. Pursuant to the terms of the reinsurance agreements with ceding companies regulated in the United States, 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. 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. Management reviews these balances for reasonableness quarterly.

## 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, unless commuted early in the normal course of business. 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 ASC 815. 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 requires the Company 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. Since these derivative instruments are considered a normal extension of the Company's financial guaranty business, the Company monitors the risks associated with these policies in accordance with its normal risk management activities as discussed in Note 10 - Losses and loss expense reserve.

The following table provides the components of "Net change in fair value of credit derivatives" included in the Company's Consolidated Statements of Operations related to our credit derivative policies:

| | Years ended December 31, 2010 | 2009 |
|---|---|---|
| **Change in fair value of credit derivatives:** | | |
| Credit derivative premiums received and receivable | $ 7,487,248 | $ 7,720,462 |
| Expenses on credit derivatives | (2,722,922) | (3,343,075) |
| Losses and loss adjustment expenses [1] | (11,277,139) | (87,571) |
| **Realized (losses)/gains and other settlements** | (6,512,813) | 4,289,816 |
| **Unrealized gains (losses) [1]** | (14,537,866) | 34,490,512 |
| **Net change in fair value of credit derivatives** | $ (21,050,679) | $ 38,780,328 |

(1) See Note 13 – Commutations, for details of the effect of the commutations on the above balances.

**Determining Fair Value**

In accordance with ASC 820, 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.
- 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 typically 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 (the financial guarantor may be required to post collateral on their downgrade).

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**

The Company's CDS 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.

Each ceding company uses its own internal valuation models where market prices are not available. 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. Given the contractual terms of the Company's reinsurance that limit its access to the terms of the underlying credit derivatives, which are highly individualized, and the underlying loan level data, the Company believes that an exit market participant would look to the information that is available from the ceding companies to determine the exit value of the Company'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 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 individual derivative policies compared to observable market data, including credit spread movements. 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. If it appears that the marks are consistent with macro spread movements, and general market trends and the Company believes that the modeling and assumptions that drive the modeling are reasonable (based on the Company's ceding company reviews and review of publicly available information), the Company 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.

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 CDS 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.

As of December 31, 2010 and 2009, included in the Company's outstanding par exposure was $3.5 billion and $4.0 billion, respectively, of CDS that have been fair valued. These derivative instruments had a remaining average legal term to maturity of 13.8 years and 15.7 years, as of December 31, 2010 and 2009, respectively. Actual maturity of a CDS is generally expected to be significantly less than the legal term.

The following tables set forth the Company's exposure to credit derivatives by major asset type as at December 31, 2010 and 2009:

| **December 31, 2010**<br>**Asset Type** [(1)] | | **Net Par Outstanding** | **Weighted. Average Credit rating** [(2)] | **Remaining Weighted Average legal contract term** [(3)] |
|---|---|---|---|---|
| | | ($ in millions) | | |
| HY | $ | 2,453.7 | AA | 10.6 |
| IG | | 213.2 | AAA | 2.8 |
| MS | | 52.8 | AAA | 35.0 |
| Other CDO | | 332.3 | AA | 31.6 |
| **Total CDO** | | 3,052.0 | | |
| RMBS | | 176.8 | BBB | 32.8 |
| Other | | 266.7 | BBB | 13.1 |
| **Grand Total** | $ | 3,495.5 | | |

| **December 31, 2009**<br>**Asset Type** [(1)] | | **Net Par Outstanding** | **Weighted Average Credit rating** [(2)] | **Remaining Weighted Average legal contract term** [(3)] |
|---|---|---|---|---|
| | | ($ in millions) | | |
| HY | $ | 2,637.7 | AA | 11.5 |
| IG | | 216.6 | AAA | 3.8 |
| MS | | 82.7 | AAA | 23.0 |
| Other CDO | | 349.3 | AA | 32.4 |
| **Total CDO** | | 3,286.3 | | |
| RMBS | | 325.1 | BBB | 35.4 |
| Other | | 377.1 | A | 18.3 |
| **Grand Total** | $ | 3,988.5 | | |

(1) The definitions of the CDO types in the above table are as follows:

**HY** – Non-investment grade corporates, predominantly CLOs backed by corporate loans

**IG** – Investment grade corporate (predominantly corporate, may include limited asset-backed securities ("ABS")

**MS** – Multi-sector collateral, which may include mortgage-backed securities ("MBS") (including subprime), ABS, CDOs, CMBS and other ABS

(2) For the year ending December 31, 2010, RAM Re ratings are current as of March 15, 2011 (for the year ending December 31, 2009, ratings were as of February 28, 2010). 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 CDS is generally expected to be significantly less than the legal term.

In compliance with the requirements of ASC 820, 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 the Company'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 the Company's non-performance risk. Management has used inputs that reflect assumptions market participants may use in pricing the Company'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 the Company 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 the Company. Such identification focuses on the nature of risk positions (primarily public finance and structured products), ratings and approximate capital adequacy as depicted by publicly available credit ratings agencies reports. Based on this information, as at December 31, 2010 and 2009, the Company estimated its credit spread to be approximately 1,910 and 2,795 basis points, respectively. An approximation of a CDS contract is made based on a 5-year insured CDS contract, an assumption of a 6 year weighted average life based on information available from the ceding companies in 2010 (in 2009, the Company estimated a 9.5 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 the Company's creditworthiness. The Company also considers other data points which may be relevant. These data points include transactions involving the Company's debt or preferred shares during the financial statement period. The Company assesses the interrelationship of market prices for these transactions with the results of applying the implied credit spreads described above. Furthermore, the Company considers the interrelationship between observed market prices for similar buyback transactions of other industry participants and their credit spreads and non-performance risk adjustments. These interrelationships are not always intuitive, nor are they necessarily consistent across all observed market participants. As a result, the Company has not directly incorporated these data points into the calculation of the non-performance risk adjustment, but rather has utilized them as a key point of reference in assessing the reasonableness of the results of the Company's estimate of the non-performance risk adjustment. The Company will continue to evaluate the significance of any future transactions in the determination of our own credit worthiness.

The effect of applying this requirement of ASC 820 was a reduction in the Company's derivative liability at December 31, 2010 and 2009 of approximately $71.3 million and $146.8 million, respectively. 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 the Company's estimated spread would have a significant impact on the amount of the adjustment for the Company's own non-performance risk. Adjustments to the Company'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, 2010:

| **Change in Credit Spreads** | **Estimated Net Fair Value of Derivative Liability** | **Impact of Change on Net Income** |
|---|---|---|
| | ($ in millions) | |
| 1000 basis point narrowing | $ (101.1) | $ (37.6) |
| 500 basis point narrowing | (79.7) | (16.2) |
| 100 basis point narrowing | (66.5) | (3.0) |
| Base scenario | (63.5) | — |
| 100 basis point widening | (60.8) | 2.7 |
| 500 basis point widening | (51.3) | 12.2 |
| 1000 basis point widening | (41.8) | 21.7 |

The Company believes that the above hypothetical spread movements used in the sensitivity analysis of 100, 500, and 1000 basis points are supported by previous large spread changes that have occurred during 2009 and 2010 in our primaries' spreads. Therefore, the Company believes it is not unreasonable for the Company 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, 2010 and 2009, by level within the fair value hierarchy. As required by ASC 820, items are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, (see Note 2(h) - Significant accounting policies, for a description of each of the three levels):

| | | Total | | Level 1 | | Level 2 | | Level 3 |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2010** | | | | | | | | |
| Derivative liabilities | $ | 63,524,831 | $ | — | $ | — | $ | 63,524,831 |

| | | Total | | Level 1 | | Level 2 | | Level 3 |
|---|---|---|---|---|---|---|---|---|
| **December 31, 2009** | | | | | | | | |
| Derivative liabilities | $ | 50,135,456 | $ | — | $ | — | $ | 50,135,456 |

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 ASC 820, 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 years ended December 31, 2010 and 2009:

**Fair value measurement using significant unobservable inputs (Level 3)**

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2010 | | 2009 |
| Balance, beginning of period | $ | (50,135,456) | $ | (85,353,670) |
| Total unrealized (losses) gains included in earnings [1] | | (14,537,866) | | 34,490,512 |
| Total realized gains included in earnings [2] | | 1,148,491 | | 727,702 |
| Purchases, issuances, sales and settlements: | | | | |
| Purchases | | — | | — |
| Issuances | | — | | — |
| Sales | | — | | — |
| Settlements | | — | | — |
| Transfers in and/or out of Level 3 | | — | | — |
| Balance, end of period | $ | (63,524,831) | $ | (50,135,456) |
| Change in unrealized gains and losses relating to assets held at the reporting date [1] | $ | (21,496,141) | $ | 31,663,120 |

(1) Included in "Unrealized gains (losses)" within "Net change in fair value of credit derivatives".
(2) Included in "Realized gains (losses) and other settlements" within "Net change in fair value of credit derivatives".

## 5 INVESTMENTS

The amortized cost, estimated fair value, gross unrealized gains, gross unrealized losses, and OTTI recorded in accumulated other comprehensive income of the Company's available for sale investments at December 31, 2010 and 2009 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Included in Accumulated Other Comprehensive Income ("AOCI") — Gross Unrealized Losses — Related to changes in estimated fair value | OTTI Included in Other Comprehensive Income (Loss) [(1)] | Estimated Fair Value |
|---|---|---|---|---|---|
| **2010:** | | | | | |
| **Fixed interest securities:** | | | | | |
| Agencies | $ 21,285,844 | $ 1,881,532 | $ — | $ — | $ 23,167,376 |
| U.S. government obligations | 122,088,572 | 3,131,756 | 768,470 | — | 124,451,858 |
| Corporate debt securities | 34,868,630 | 2,700,074 | 151,597 | — | 37,417,107 |
| Municipal securities | 10,729,998 | 524,964 | — | — | 11,254,962 |
| Mortgage-backed securities: | | | | | |
| RMBS | 62,005,513 | 2,296,110 | 326,279 | — | 63,975,344 |
| CMBS | 19,807,938 | 1,116,408 | — | — | 20,924,346 |
| Asset -backed securities | 10,020,568 | 436,613 | — | 27,793 | 10,429,388 |
| **Total** | $ 280,807,063 | $ 12,087,457 | $ 1,246,346 | $ 27,793 | $ 291,620,381 |
| **2009:** | | | | | |
| **Fixed interest securities:** | | | | | |
| Agencies | $ 24,543,776 | $ 1,632,438 | $ — | $ — | $ 26,176,214 |
| U.S. government obligations | 122,625,669 | 2,073,683 | 48,665 | — | 124,650,687 |
| Corporate debt securities | 48,038,349 | 2,057,765 | 939,890 | 594,759 | 48,561,465 |
| Municipal securities | 14,768,262 | 416,735 | 44,848 | — | 15,140,149 |
| Mortgage-backed securities: | | | | | |
| RMBS | 62,034,993 | 1,837,419 | 60,644 | — | 63,811,768 |
| CMBS | 31,253,820 | 265,477 | 266,023 | — | 31,253,274 |
| Asset-backed securities | 35,115,152 | 1,143,521 | 60,092 | 12,635 | 36,185,946 |
| **Total** | $ 338,380,021 | $ 9,427,038 | $ 1,420,162 | $ 607,394 | $ 345,779,503 |

(1) Represents the amount of OTTI losses in AOCI, which from April 1, 2009 was not included in earnings under authoritative accounting guidance.

The Company did not have an aggregate investment in a single entity, other than U.S. Treasury securities, in excess of 10% of total investments at December 31, 2010 and 2009.

The amortized cost and estimated fair value of fixed interest securities classified as available for sale as of December 31, 2010 and 2009, 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.

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Less than one year | $ 19,745,010 | $ 21,225,266 | $ 27,897,852 | $ 29,030,894 |
| Due after one year through five years | 122,850,593 | 127,081,781 | 135,465,734 | 137,299,787 |
| Due after five years through ten years | 31,987,361 | 32,585,166 | 25,495,080 | 26,997,117 |
| Due after ten years | 14,390,080 | 15,399,090 | 21,117,390 | 21,200,717 |
| Mortgage-backed securities: | | | | |
| RMBS | 62,005,513 | 63,975,344 | 62,034,993 | 63,811,768 |
| CMBS | 19,807,938 | 20,924,346 | 31,253,820 | 31,253,274 |
| Asset-backed securities | 10,020,568 | 10,429,388 | 35,115,152 | 36,185,946 |
| **Total** | $ 280,807,063 | $ 291,620,381 | $ 338,380,021 | $ 345,779,503 |

The investments that have unrealized loss positions as of December 31, 2010 and 2009, 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 |
| **2010:** | | | | | | |
| **Fixed income securities** | | | | | | |
| Agencies | $ — | $ — | $ — | $ — | $ — | $ — |
| U.S. government obligations | 17,133,355 | 768,470 | — | — | 17,133,355 | 768,470 |
| Corporate debt securities | 1,799,350 | 55,650 | 2,080,650 | 95,947 | 3,880,000 | 151,597 |
| Municipal securities | — | — | — | — | — | — |
| Mortgage -backed securities: | | | | | | |
| RMBS | 14,854,107 | 326,279 | — | — | 14,854,107 | 326,279 |
| CMBS | — | — | — | — | — | — |
| Asset-backed securities | 70,553 | 27,793 | — | — | 70,553 | 27,793 |
| Total temporarily impaired securities | $ 33,857,365 | $ 1,178,192 | $ 2,080,650 | $ 95,947 | $ 35,938,015 | $ 1,274,139 |

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| **2009:** | | | | | | |
| **Fixed income securities** | | | | | | |
| Agencies | $ — | $ — | $ — | $ — | $ — | $ — |
| U.S. government obligations | 7,450,785 | 48,665 | — | — | 7,450,785 | 48,665 |
| Corporate debt securities | 3,441,680 | 594,759 | 8,158,330 | 939,890 | 11,600,010 | 1,534,649 |
| Municipal securities | 3,095,789 | 44,848 | — | — | 3,095,789 | 44,848 |
| Mortgage -backed securities: | | | | | | |
| RMBS | 6,377,577 | 60,644 | — | — | 6,377,577 | 60,644 |
| CMBS | 7,423,600 | 266,023 | — | — | 7,423,600 | 266,023 |
| Asset-backed securities | 85,712 | 12,635 | 8,239,908 | 60,092 | 8,325,620 | 72,727 |
| Total temporarily impaired securities | $ 27,875,143 | $ 1,027,574 | $ 16,398,238 | $ 999,982 | $ 44,273,381 | $ 2,027,556 |

As of December 31, 2010, 7 out of 121 securities were in unrealized loss positions compared to 11 out of 133 securities as of December 31, 2009. As at December 31, 2010, the Company's gross unrealized loss position was $1.3 million compared to $2.0 million at December 31, 2009. The decrease in the unrealized losses as at December 31, 2010 was primarily attributable to a decrease in the Company's portfolio by $54.2 million during the year along with the improved conditions in the financial markets. Management does not believe these investments to be other than temporarily impaired and has no intention to sell the securities. Unrealized gains and losses relating to investments are currently recorded in accumulated other comprehensive 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. Of the securities in an unrealized loss position of 12 months or more as of December 31, 2010, no securities had an unrealized loss of greater than 10% of the book value.

During the year ended December 31, 2010 and 2009, the Company recognized an immaterial amount and $5.1 million of other than temporary impairments, respectively. During 2009, the Company recognized $0.9 million relating to an investment with subprime exposure, (the fair value of this investment was $0.2 million at December 31, 2010), and a credit loss of $0.1 million was taken on another bond with subprime exposure, (the fair value of this security was $0.1 million at December 31, 2010). $2.0 million was recognized on securities which the Company had the intent to sell in the period. A loss of $2.1 million was recognized on a corporate bond which the Company believed to be other than temporarily impaired in the first quarter of 2009. On implementation of the new guidance on OTTI during the second quarter of 2009, $1.9 million of this OTTI was reversed through retained earnings to leave only the credit portion of the loss in retained earnings. Where an other than temporary impairment is identified, the credit losses have been determined based on the estimated present value of cash flows using the appropriate discount rate based on the book yield and making assumptions for defaults based on the rating or current delinquencies on the securities.

The following table sets forth the amount of credit loss impairments on fixed income securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts:

| | **OTTI related to Credit Losses recognized in earnings** | |
|---|---|---|
| **Year Ended December 31,** | **2010** | **2009** |
| Balance, January 1 | $ 6,095,642 | $ – |
| Credit losses remaining in retained earnings related to adoption of ASC 320 - 10 (effective April 1, 2009) | – | 5,091,121 |
| Additions: | | |
| Additional credit loss impairments recognized in the current period on securities previously impaired | 8,996 | 1,004,521 |
| Credit loss impairment recognized in the current period on securities not previously impaired | – | – |
| Credit loss impairments previously recognized on securities impaired to fair value during the period | – | – |
| Reductions: | | |
| Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period | (175,208) | – |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected | – | – |
| Balance, December 31, | $ 5,929,430 | $ 6,095,642 |

The Company has no material investments in securities guaranteed by third parties and has no direct investments in financial guarantors as at December 31, 2010 and 2009. As of December 31, 2010, the Company has 2 securities with a fair value of $2.3 million, which were non income producing during the preceding 12 months. The credit loss impairment on both these securities has been taken to earnings.

Proceeds from maturities and sales of investments in fixed interest securities available for sale during 2010 and 2009 were $145,516,897 and $279,559,894, respectively. Gross gains of $2,818,484 and $9,016,387 in 2010 and 2009, respectively, and gross losses of $429,462 and $149,530 in 2010 and 2009, respectively, were realized on those sales.

Major categories of net investment income are summarized as follows:

| | **2010** | **2009** |
|---|---|---|
| Interest from fixed-maturity securities | $ 11,951,182 | $ 14,892,646 |
| Interest from cash equivalents | 7,053 | 53,730 |
| Pension plan gains | — | 29,984 |
| Investment expense | (426,807) | (545,161) |
| Net investment income | $ 11,531,428 | $ 14,431,199 |

## 6 FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS REINSURANCE

Effective January 1, 2009, the Company adopted new accounting guidance for financial guaranty insurance contracts. The cumulative effect of adopting this standard was a charge to retained earnings of $43.8 million. The underwriting of insured risks and the reporting of underwriting results to the Company are the responsibility of the primary insurers under the treaties. The Company does not "re-underwrite" the transactions ceded under the treaties. The Company's business model has always been that of a reinsurer in which the Company leverages and relies on the operations and reporting of the primary insurers. As a result of this model, the Company is highly dependent on the operating and reporting of the ceding companies. The ceding companies use complex financial models, which have been internally developed, to produce the earnings and run off for their financial guaranty policies in accordance with US GAAP. Management assesses the reasonableness of the ceding companies' reporting by i) discussing with primary insurers their earnings methodology, ii) reviewing the primaries' publicly available information regarding their accounting policies and methodologies, iii) comparing the primary reported information to the results of the Company's own basic model and iv) performing analytical review on the Company's underwriting results. Where a ceding company does not report all balances required, the Company makes estimates of the necessary information for a period based on internal models and calculations. During 2010, one of the ceding companies ceased reporting US GAAP financial information and therefore the Company produced its own internal model to calculate and report the US GAAP financial information on policies ceded by that primary.

The following tables present a roll forward of the Company's premium receivable on installment policies for the years ended December 31, 2010 and 2009:

| **(dollars in thousands)** | | **Premiums receivable** |
|---|---|---|
| Premiums receivable January 1, 2010 | $ | 39,048 |
| Add: Premiums on new policies in 2010 | | — |
| Accretion of premiums receivable discount | | 1,354 |
| Adjustments for changes in expected term of policies | | (4,498) |
| Add: Foreign exchange movement | | 107 |
| Less: Premiums received | | (4,464) |
| Other adjustments | | — |
| Balance as of December 31, 2010 | $ | 31,547 |

| **(dollars in thousands)** | | |
|---|---|---|
| Premiums receivable January 1, 2009 | $ | 171,099 |
| Add: Premiums on new policies in 2009 | | 168 |
| Accretion of premiums receivable discount | | 1,942 |
| Adjustments for changes in expected term of policies | | (3,137) |
| Add: Foreign exchange movement | | 702 |
| Less: Premiums received | | (7,605) |
| Other adjustments [1] | | (124,121) |
| Balance as of December 31, 2009 | $ | 39,048 |

(1) Relates to the settlement of the premiums receivable on Ambac policies commuted in the period (See Note 13 – Commutations, for full details of the commutation)

As of December 31, 2010 and 2009, the Company had $31.5 million and $39.0 million, respectively, of premium receivable, which represents the present value of future expected premiums on contracts where installments are collected over the term of the policy. This amount is included within "Reinsurance balances receivable, net" on the Consolidated Balance Sheets, net of the related ceding commissions payable as of December 31, 2010 and 2009 of $12.1 million and $14.7 million, respectively. As of December 31, 2010 and 2009, $1.8 million and $2.7 million, respectively, of paid losses due to ceding companies was netted off "Reinsurance balances receivable, net" on the Consolidated Balance Sheets where the right of offset with a ceding company exists.

RAM Re suffered a number of downgrades, commencing in the middle of 2008, by both Moody's and S&P. On May 19, 2009, Moody's downgraded RAM Re to Ba3 and, at the same time, withdrew the rating at the Company's request. On August 31, 2009, S&P downgraded RAM Re's financial strength rating to BB with negative outlook and, at the same time, withdrew the rating at the Company's request. As a result of these downgrades, since 2008 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. The additional ceding commissions charged to the Company have been paid or accrued and deferred and are being expensed in proportion to the earning of the remaining unearned premium, except for credit derivative policies where it is expensed as incurred. In October 2009, $16.5 million of additional ceding commissions were paid to one ceding company, primarily relating to the additional ceding commissions accrued on U.S. statutory unearned premiums on the date of RAM Re's downgrade. As of December 31, 2010 and 2009, additional ceding commissions due on the present value of premiums receivable on installment policies are netted off the premiums receivable within "Reinsurance balances receivable, net".

The accretion of premium receivable discount is included in earned premiums in the Company's consolidated statements of operations. As of December 31, 2010 and 2009, the weighted average risk-free rate used to discount the premiums receivable was 3.33% and 3.17%, respectively. The weighted average expected period of future premiums used to estimate the premium receivable was 10.1 years and 10.5 years, respectively. As of December 31, 2010 and 2009, the unearned premiums on these installment policies were $31.3 million and $39.6 million, respectively, and was included in "Unearned premiums" on the Consolidated Balance Sheets.

The following table presents the future amount of undiscounted premiums expected to be collected on installment policies and the period in which those collections are expected to occur. These amounts are based on the Company's estimates as of December 31, 2010, utilizing information as reported by the ceding companies, and any changes to the underlying information on insured obligations could cause actual results to be materially different from the amounts below:

| **(dollars in thousands)** | | **Premiums Expected to be collected** |
|---|---|---|
| Three months ended: | | |
| March 31, 2011 | $ | 810 |
| June 30, 2011 | | 948 |
| September 30, 2011 | | 896 |
| December 31, 2011 | | 1,127 |
| | | |
| Twelve months ended: | | |
| December 31, 2012 | | 3,008 |
| December 31, 2013 | | 2,744 |
| December 31, 2014 | | 2,566 |
| December 31, 2015 | | 3,048 |
| | | |
| Five years ended: | | |
| December 31, 2020 | | 10,176 |
| December 31, 2025 | | 7,081 |
| December 31, 2030 | | 4,660 |
| December 31, 2035 | | 2,767 |
| December 31, 2040 | | 1,389 |
| December 31, 2045 | | 700 |
| After 2045 | | 344 |

The following table presents the expected unearned premium revenue and the schedule of total expected future premium earnings revenue on upfront and installment policies. These amounts are based on the Company's estimates as of December 31, 2010, utilizing information as reported by the ceding companies, and any changes to the underlying information on insured obligations could cause actual results to be materially different from the amounts below:

**(dollars in thousands)**

| Three months ended: | Change in Unearned Premiums | Accretion | Total Expected Future Earned Premiums |
|---|---|---|---|
| March 31, 2011 | $ 2,633 | $ 253 | $ 2,886 |
| June 30, 2011 | 2,596 | 249 | 2,845 |
| September 30, 2011 | 2,555 | 245 | 2,800 |
| December 31, 2011 | 2,514 | 242 | 2,756 |
| | | | |
| Twelve months ended: | | | |
| December 31, 2012 | 9,633 | 915 | 10,548 |
| December 31, 2013 | 9,046 | 857 | 9,903 |
| December 31, 2014 | 8,604 | 816 | 9,420 |
| December 31, 2015 | 8,081 | 760 | 8,841 |
| | | | |
| Five years ended: | | | |
| December 31, 2020 | 32,979 | 2,937 | 35,916 |
| December 31, 2025 | 22,521 | 1,840 | 24,361 |
| December 31, 2030 | 15,075 | 1,049 | 16,124 |
| December 31, 2035 | 8,635 | 529 | 9,164 |
| December 31, 2040 | 4,199 | 250 | 4,449 |
| December 31, 2045 | 2,160 | 117 | 2,277 |
| After 2045 | 2,435 | 65 | 2,500 |

Accelerated premium revenue for refunded obligations for the years ended December 31, 2010 and 2009 was approximately $2.5 million and $10.6 million, respectively, and represents the unscheduled prepayment of the underlying obligation.

The following table shows premiums written for the years ended December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Gross premiums written (1) | $ (3,000,029) | $ (154,389,415) |
| Ceded premiums | — | 1,811,330 |
| Net Premiums written | $ (3,000,029) | $ (152,578,085) |

(1) See Note 13 – Commutations for details of commutations in the period included within these numbers.

Included in Net premiums written in 2010 and 2009 was accretion of the premiums receivable of $1.4 million and $1.9 million, respectively. Accretion of the ceding commissions payable of $0.4 million and $0.6 million, respectively, is included in acquisition expenses for the period.

During the year ended December 31, 2010, the Company changed its estimate with respect to the reporting of premium and acquisition cost information to eliminate the one month lag in reporting. Prior to the year ended December 31, 2010, premium revenues and acquisition costs were recorded on a one month lag basis. This change in estimate has been accounted for prospectively and did not have a material impact on the consolidated balance sheet and consolidated results of operations as of and for the year ended December 31, 2010.

## 7 REINSURANCE

On July 1, 2005, RAM Re entered into a retrocession agreement with a "AA" rated financial guaranty company, which was subsequently downgraded to Ba1 by Moody's and BB- by S&P as of December 31, 2009 and 2010, to retrocede certain business that exceeded its single-risk limits on a facultative basis, thereby limiting its exposure to loss from large individual risks. This retrocessional agreement did not relieve RAM Re from its obligation to the reinsured. This agreement was terminated on a "run-off" basis effective December 31, 2008. On December 31, 2009, the Company commuted its retrocessional agreement for $0.7 million, realizing an immaterial gain on commutation. As of December 31, 2009, $0.7 million was included in "Reinsurance balances receivable" on the Consolidated Balance Sheets, relating to the final amount due RAM Re on commutation of this agreement. This balance was settled during the first quarter of 2010 and, as of December 31, 2010, no balances relating to this agreement remained outstanding.

## 8 CONTINGENT CAPITAL, CREDIT FACILITIES AND NONCONTROLLING INTEREST

As of December 31, 2010 and 2009, RAM Re had no contingent capital and credit facilities outstanding. The details of previously held facilities are discussed below.

The Company previously maintained a $90.0 million credit facility with major commercial banks. The facility could have been drawn upon by the Company if cumulative losses exceeded 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 had limited recourse and would have been 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 Company also previously maintained a second $40.0 million contingent capital facility with two highly rated commercial banks. This facility was essentially the same as the $90.0 million contingent capital facility described above although it could have been 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 had limited recourse and were 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. Effective May 13, 2009, the Company cancelled the above two credit facilities with immediate effect.

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's Class B Preference Shares. 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 a preferred equity investor in RAM Re. Such rights are subordinate to insurance claims, as well as the general unsecured creditors of RAM Re. The Class B Preference Shares are not rated by S&P since the Company requested the withdrawal of its ratings during 2009 and have not been rated by Moody's. 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 Class B Preference Shares on that date was $8.1 million, being the difference between the proceeds received and the fair value of the put option on the date of exercise. On March 9, 2010, RAM Re completed a tender offer for the Class B Preference Shares, pursuant to which 68.00 shares, or 13.60%, were tendered out of the 500.01 shares outstanding. RAM Re accepted for purchase all such Class B Preference Shares that were validly tendered as of the applicable expiration date and paid $1.7 million for all such Class B Preference Shares on March 10, 2010. Following the settlement of the tender offer, 432.01 shares of Class B Preference Shares remain outstanding. The value of the Class B Preference Shares of $7.0 million and $8.1 million is included as a "Noncontrolling interest – Class B preference shares of subsidiary" in the Company's Consolidated Balance Sheets as of December 31, 2010 and 2009, respectively.

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 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 guaranty obligations made in respect of indebtedness of RAM Re or RAM Holdings) or (ii) to pay its operating expenses. On May 12, 2009, the Board of Directors determined to pay dividends up to June 15, 2009, and suspend dividend payments thereafter on these Class B Preference Shares. During the year ended December 31, 2009, dividends of $0.9 million were paid to the Class B preference shareholders, which is included as "Noncontrolling interest – dividends on Class B preference shares of subsidiary" in the Company's Consolidated Statements of Operations. If RAM Re fails to pay dividends in full on the Class B Preference Shares for eighteen consecutive months then the number of members on the Board of Directors of RAM Re is automatically increased by two with the holders of the Class B Preference Shares having the ability to elect the two additional directors. In accordance with this provision, the Board of Directors of RAM Re was increased by two on December 15, 2010 and a special general meeting of holders of the Class B Preference Shares was held on February 14, 2011. Two directors were appointed to the Board of Directors of RAM Re at the special general meeting of holders of the Class B Preference Shares, one of whom subsequently declined to accept the appointment.

## 9 FAIR VALUE OF FINANCIAL INSTRUMENTS

### Fair Value Measurements

The Company follows the guidance of ASC 820 for fair value measurement of financial instruments. ASC 820 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 2(h) - Significant accounting policies 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, 2010 and 2009. As required by ASC 820, items are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| | **Balance as of December 31, 2010** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Financial Assets:** | | | | |
| Fixed maturity investments | | | | |
| Agencies | $ 23,167,376 | $ — | $ 23,167,376 | $ — |
| U.S. government obligations | 124,451,858 | 57,394,525 | 67,057,333 | — |
| Corporate debt securities | 37,417,107 | — | 37,417,107 | — |
| Municipal securities | 11,254,962 | — | 11,254,962 | — |
| Mortgage -backed securities: | | | | |
| RMBS | 63,975,344 | — | 63,975,344 | — |
| CMBS | 20,924,346 | — | 20,924,346 | — |
| Asset-backed securities | 10,429,388 | — | 10,429,388 | — |
| Total fixed maturity investments | 291,620,381 | 57,394,525 | 234,225,856 | |
| Cash and Cash Equivalents | 5,718,195 | 5,718,195 | — | — |
| Restricted Cash | 16,722,247 | 16,722,247 | — | — |
| Other financial instruments | — | — | — | — |
| **% of assets at fair value** | **100%** | **25%** | **75%** | **0%** |
| | | | | |
| **Financial Liabilities:** | | | | |
| Derivative Liabilities [1] | $ 63,524,831 | $ — | $ — | $ 63,524,831 |
| **% of liabilities at Fair value** | **100%** | **—** | **—** | **100%** |

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Balance as of December 31, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Financial Assets:** | | | | |
| Fixed maturity investments | | | | |
| Agencies | $ 26,176,214 | $ — | $ 26,176,214 | $ — |
| U.S. government obligations | 124,650,687 | 47,742,021 | 76,908,666 | — |
| Corporate debt securities | 48,561,465 | — | 48,561,465 | — |
| Municipal securities | 15,140,149 | — | 15,140,149 | — |
| Mortgage -backed securities: | | | | — |
| RMBS | 63,811,768 | — | 63,811,768 | — |
| CMBS | 31,253,274 | — | 31,253,274 | — |
| Asset-backed securities | 36,185,946 | — | 35,904,807 | 281,139 |
| Total fixed maturity investments | 345,779,503 | 47,742,021 | 297,756,343 | 281,139 |
| Cash and Cash Equivalents | 9,311,110 | 9,311,110 | — | — |
| Restricted Cash | 2,884,962 | 2,884,962 | — | — |
| Other financial instruments | — | — | — | — |
| **% of assets at fair value** | **100%** | **17%** | **83%** | **0%** |
| **Financial Liabilities:** | | | | |
| Derivative Liabilities [1] | $ 50,135,456 | $ — | $ — | $ 50,135,456 |
| **% of liabilities at Fair value** | **100%** | **—** | **—** | **100%** |

[1] See Note 4 - Derivative instruments for further disclosures on the application of ASC 820 to the Company's derivative liabilities.

**Fixed maturity investments**

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, 2010, all of the Company's investments were valued using the independent pricing services. At December 31, 2009, all but one of the Company's investments were valued using the independent pricing services. This security, which had a fair value of $0.3 million as of December 31, 2009, had no active market and included subprime exposure, was valued using a non-binding broker quote. This security was included within level 3 in the fair value hierarchy as of December 31, 2009; however, it was transferred to level 2 during 2010 due to pricing becoming available using observable inputs to the models.

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 management's 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 fair value hierarchy level in accordance with ASC 820. Based on the Company's evaluation, each security was classified as Level 1, 2, or 3. Prices with observable market inputs were classified as Level 2, prices on money market funds and US treasuries were classified as Level 1, and valuations with no significant observable inputs were classified as Level 3 as of December 31, 2010 and 2009.

**Fair value measurement using significant unobservable inputs (Level 3)**

| | Years Ended December 31, 2010 | 2009 |
|---|---|---|
| Balance, beginning of period | $ 281,139 | $ 210,123 |
| Implementation of new guidance on other than temporary impairments | — | 837,800 |
| Total realized losses included in earnings | — | (780,029) |
| Total unrealized gains (losses) included in other comprehensive income | — | 163,061 |
| Purchases, issuances, sales and settlements | | |
| Purchases | — | — |
| Issuances | — | — |
| Sales | — | — |
| Settlements | — | (149,816) |
| Transfers in and/or out of Level 3 | (281,139) | — |
| Balance, December 31, | $ — | $ 281,139 |
| Change in unrealized gains and losses relating to assets held at the reporting date | $ — | $ 163,061 |

**Other financial instruments**

The Company's fair value on other financial instruments relates to the put option on the Company's prior soft capital facility, which represents the value to the Company in the current market environment. The put option was exercised effective February 17, 2009, and therefore, there are no other financial instruments as of December 31, 2010 and 2009. The put option was a financial instrument and was required to be fair valued. The movement in fair value of $(1.2) million for the period to February 17, 2009, the exercise date, is included as an unrealized loss on other financial instruments in the Consolidated Statements of Operations. Valuations were based on unobservable inputs, including assumptions over the Company's performance and future outlook, the facility, market conditions, and other similar instruments in the market. Assumptions included the 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. See Note 8 - Contingent capital, credit facilities and noncontrolling interest, for further information regarding this exercise.

The following table presents the other financial instruments for which fair value was measured under Level 3 for the years ended December 31, 2010 and 2009:

**Fair value measurement using significant unobservable inputs (Level 3)**

| | Years Ended December 31, | |
|---|---|---|
| | **2010** | **2009** |
| Balance, beginning of period | $ — | $ 43,083,370 |
| Total unrealized (losses) gains included in earnings | — | (1,196,760) |
| Purchases, issuances, sales and settlements | — | |
| Purchases | — | — |
| Issuances | — | — |
| Sales | — | — |
| Settlements | — | (41,886,610) |
| Transfers in and/or out of Level 3 | — | — |
| Balance, December 31, | $ — | $ — |
| Change in unrealized gains and losses relating to assets held at the reporting date | $ — | $ — |

Since there was no active market for the put option and due to the significant number of unobservable inputs used in the valuation, the put option valuation had been 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. Fair value estimates are not necessarily indicative of the amount the Company could realize in a current market exchange.

The Company considers carrying amounts of cash and cash equivalents, interest, other assets, reinsurance balances receivable and payable, accounts payable and accrued liabilities and other liabilities to be reasonable estimates of their fair values.

As of December 31, 2010 and 2009, the fair value of the Company's $59.7 million and $75.0 million redeemable Series A preference shares was approximately $14.9 million and $18.8 million, respectively. These fair value estimates are based on past trades in our Series A preference shares during 2010, together with the Company's best estimate of fair value of this instrument.

During the year ended 2010, the Company's unsecured senior notes (the "Notes") was fully repurchased. As of December 31, 2009 the fair value of the Company's Notes was estimated to be approximately $19.3 million. This fair value estimate was based on actual trades in our Notes subsequent to the 2009 year end. Accrued interest payable as of December 31, 2009 was assumed to approximate carrying value.

As of December 31, 2010 and 2009, the carrying amount of unearned premiums represented the unearned premium collected at inception for policies where premiums are paid upfront and for policies where the premiums are received in installments. The unearned premium represents the unearned portion of the present value of premiums expected to be collected over the contract period, discounted at a risk free rate. The fair value of the unearned premiums is the value the Company would receive to transfer those obligations. The Company's market would be the financial guaranty insurance and reinsurance industry participants, similar to that used in the calculation of fair value of insured CDS contracts. Unearned premiums are generally collateralized by the Company by placing assets in trust for the benefit of the ceding company. The Company perceives the fair value to approximate the carrying value.

The following table sets out the carrying amounts and the estimated fair values of the Company's financial instruments at December 31, 2010 and 2009:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial Assets:** | | | | |
| Investments | $ 291,620,381 | $ 291,620,381 | $ 345,779,503 | $ 345,779,503 |
| Cash and cash equivalents | 5,718,195 | 5,718,195 | 9,311,110 | 9,311,110 |
| Restricted cash | 16,722,247 | 16,722,247 | 2,884,962 | 2,884,962 |
| Reinsurance balances receivable | 17,659,316 | 17,659,316 | 22,344,848 | 22,344,848 |
| **Financial Liabilities:** | | | | |
| Losses and loss expenses reserves net of recoveries | 33,180,352 | 33,180,352 | 45,319,658 | 45,319,658 |
| Unearned premiums, net of reinsurance | 133,666,192 | 133,666,192 | 153,429,709 | 153,429,709 |
| Derivative liabilities | 63,524,831 | 63,524,831 | 50,135,456 | 50,135,456 |
| Long-term debt | — | — | 35,000,000 | 19,250,000 |
| Redeemable preference shares | 59,700,000 | 14,925,000 | 75,000,000 | 18,750,000 |

## 10 LOSSES AND LOSS EXPENSE RESERVE

The Company's loss and loss expense reserve as of December 31, 2010 represented case basis loss reserves, or claim liability. Refer to Note 2 - Significant accounting policies for a description of the Company's accounting policy for insurance losses and the impact of the adoption of new accounting guidance as of January 1, 2009 on the Company's financial statements.

A summary of the movement in the provision for losses and loss adjustment expenses for the years ended December 31, 2010 and 2009 are presented in the following table:

| | 2010 | 2009 |
|---|---|---|
| Case basis loss reserves: | | |
| Balance – Beginning of year | $ 56,672,359 | $ 81,787,220 |
| Less: Recoverables on paid losses | (11,352,701) | (1,796,842) |
| Less: transition adjustment, net | — | 39,873,155 |
| Net balance – Beginning of year | 45,319,658 | 119,863,533 |
| Additions to case reserves related to: | | |
| Current year | — | — |
| Prior years | 5,737,144 | 20,683,918 |
| | 5,737,144 | 20,683,918 |
| Net losses paid related to: | | |
| Current year | — | — |
| Prior years | 17,876,450 | 95,227,793 |
| Total paid | 17,876,450 | 95,227,793 |

| | | |
|---|---|---|
| Net balance – End of year | 33,180,352 | 45,319,658 |
| Add: Recoverables on paid losses | 19,231,274 | 11,352,701 |
| **Balance – End of year** | 52,411,626 | 56,672,359 |
| Unallocated loss reserve: | | |
| Balance – Beginning of year | — | 14,007,034 |
| Net provision for unallocated reserves established | — | — |
| Transfer to case reserves | — | — |
| Less: transition adjustment | — | (14,007,034) |
| **Balance – End of year** | — | — |
| **Total losses and loss expense reserve** | 52,411,626 | 56,672,359 |

For the year ended December 31, 2010, the Company incurred loss and loss adjustment expenses ("LAE") of $5.7 million. Included in the $5.7 million of loss and LAE is $17.9 million in loss and LAE payments, including $(0.8) million relating to commutation payments (see Note 13 – Commutations for further details of these commutations). Incurred losses since January 1, 2010 were primarily a result of US RMBS incurred losses of $6.3 million. US RMBS incurred losses consisted of $16.2 million of loss and LAE payments, including $(0.8) million of commutation payments, and $(9.9) million of change in case reserves.

For the year ended December 31, 2009, the Company incurred loss and LAE of $20.7 million. Included in the $20.7 million of loss and LAE is $95.2 million of loss and LAE payments, including $58.0 million related to commutation payments, and $(74.5) million change in case reserves. As of January 1, 2009, the Company adopted new guidance for its case reserves and a transition adjustment of $39.9 million was recorded. The transition adjustment was primarily a result of (i) the Company's use of a new, proprietary statistical expected loss model for determining reserves for financial guaranty contracts (as discussed below) and (ii) a change in the discount rate used to determine the present value of future losses and recoveries. The elimination of unallocated reserves in 2009, in accordance with US GAAP, reduced total losses and loss expense reserve by $14.0 million. Incurred losses in 2009 were primarily a result of US RMBS incurred losses of $24.3 million. US RMBS incurred losses consisted of $59.1 million of loss and LAE payments, including $25.1 million of commutation payments, and $(34.8) million of change in case reserves.

The deterioration in the US residential mortgage markets from 2007 through 2009 resulted in a significant amount of case-basis loss reserves being recorded on the RMBS policies that have defaulted or have a high probability of defaulting. The Company's US RMBS exposure includes obligations backed by Alt-A, subprime, closed-end second mortgage loans and home equity lines of credit. Alt-A and subprime mortgage loans tend to be first lien products, while closed-end second and home equity lines of credit mortgages tend to be second lien products. Throughout 2010, the Company's US RMBS exposures continued to experience losses due to actual loss and LAE payments on insured obligations, particularly second lien US RMBS. The Company's estimate of loss reserves related to US RMBS exposure represents management's best estimate of total future 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 and any changes will be recorded in the period in which they occur.

As of December 31, 2010 and 2009, the Company gave credit of $28.1 million and $32.6 million, respectively, in its case reserves for the benefit of expected recoveries in US RMBS transactions resulting from required repurchases by the originators due to contractual breaches of representations and warranties in the RMBS securitization agreements. The credit given for such repurchase recoveries at year-end 2010 and 2009 matches the credit reported to the Company by the ceding companies in their ceded reserves, as that is the Company's best estimate of the remediation benefit at this time. The ceding companies performed detailed examinations of sampled RMBS loan files to determine whether the loans conformed to the representation and warranties made by the sponsors of the RMBS. 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 sponsors for repurchase.

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 the credit taken by the primaries in its own case reserves to be appropriate and assumed its proportionate share of the credit given by the ceding companies when establishing its case reserves as of year-end 2010 and 2009.

To determine the adequacy of its aggregate reserves, the Company considers the loss 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 loss reserves. To further evaluate the ceded reserve amounts established by the ceding companies, the Company uses its own expected loss forecasting methodologies. Ultimately, the Company decides on an individual credit-by-credit basis whether to establish the ceding company's reserve as its own or to use its own forecast methodology to determine the reserve for such credit. As of December 31, 2010, the Company estimates that its loss and LAE reserves for financial guaranty contracts are 23% higher than the reserves ceded by the primaries.

The Company uses one of two approaches to perform its own forecast of expected losses. The first approach is a statistical expected loss approach, which considers the likelihood of alternative outcomes. The statistical expected loss is a function of: (i) the net par outstanding on the credit; (ii) internally developed historical default assumptions (taking into consideration internal ratings and remaining term to maturity of an obligation); (iii) internally developed loss severities; and (iv) a discount factor. The loss severities and default assumptions are based on rating agency information, are specific to each bond type and are established and approved by the Company's Management Committee. For certain credit exposures, the Company's surveillance activities may provide information relevant to adjust the estimate of the statistical expected losses. As such, the default probability or loss severity for such exposures under certain probabilistic scenarios may be adjusted based on the judgment of senior management.

The second approach entails the use of more precise estimates of expected net cash outflows (future claim payments, net of potential recoveries, expected to be paid to the holder of the insured financial obligation). The Company's risk management staff considers the likelihood of alternative possible outcomes and develops alternative loss scenarios, in conjunction with a review of historical performance data of the collateral pools. In this approach a probability-weighted expected loss estimate is developed based on assigning probabilities to multiple net claim payment scenarios and applying an appropriate discount factor. 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.

A loss reserve is recorded for the excess, if any, of estimated expected losses (net cash outflows) over unearned premium reserve ("UPR"). For certain policies, estimated potential recoveries exceed estimated future claim payments because all or a portion of such recoveries relate to claims previously paid. The expected net cash inflows for these policies are recorded as a recoverable asset.

The discount factor applied is based on a risk-free discount rate corresponding to the remaining expected weighted-average life of the exposure or based on multiple risk-free discount rates related to the timing of individual claims payments. The discount factors are updated for the current risk-free rates each reporting period. As of December 31, 2010, the Company used risk free rates ranging from 0.13% to 5.02% to discount reserves for loss and loss adjustment expenses. As of December 31, 2009 the Company used risk free rates ranging from 0.07% to 5.21% to discount reserves for loss and loss adjustment expenses.

The Company's Management Committee establishes reserves that it believes are adequate to cover the present value of ultimate liability for losses and loss adjustment expenses, net of UPR. 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.

The Company also identifies problem credits through information provided by the ceding companies at least on a quarterly basis. Such information generally consists of surveillance and underwriting reports and quarterly conference calls with the 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 a greater than the usual level of ongoing scrutiny and/or intervention. The ceding companies notify the Company when any ceded exposure has been placed on such a watch list. The Management Committee is comprised of the Company's senior officers and meets quarterly to formally review the Company's Watch List and approve reserves.

The Company 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 the Company generally employs a mapping of each watch list category of each ceding company to the Company's own Watch List categories. Risk management also 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.
- Category 3 includes transactions where performance has deteriorated to the point where concerns about continued ability to meet debt service requirements on a timely basis are substantial. Also included are transactions where claims have been paid but recoveries are forecast for the claims.
- Category 4 transactions include those for which ultimate net loss (net of recoveries and premium receivable) is expected in the most-probable scenarios

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.

The Company does not perform loss mitigation activities and instead relies on the loss mitigation efforts of the ceding companies, who report the Company's proportionate share of the expenses incurred and liability arising from such activities. The Company pays the ceding companies a ceding commission for all policies reinsured. The ceding commission represents the Company's portion of the internal cost to the ceding companies to write the transaction, perform ongoing surveillance and to undertake loss mitigation activities. Ceding commissions are deferred and expensed as each policy's exposure matures and are included as an asset in deferred policy acquisition costs and as acquisition expenses in the statement of operations. The Company reports loss expenses associated with claims as a liability in losses and loss expense reserves on the Consolidated Balance Sheets and in loss and loss adjustment expenses in the Consolidated Statements of Operations.

The following table provides information about the financial guaranty policies and related loss reserves in each of the Company's Watch List categories as of December 31, 2010:

| | | Surveillance Categories | | | | |
|---|---|---|---|---|---|---|
| **(dollars in millions)** | **Deals not on watch list** | **Category 1** | **Category 2** | **Category 3** | **Category 4** | **Total** |
| Number of policies | 41 | 32 | 14 | 19 | 57 | 163 |
| Remaining weighted average contract period (in yrs) | 20 | 14 | 34 | 24 | 26 | 20 |
| Insured contractual payments outstanding: | | | | | | |
| Principal | $ 612.9 | $ 320.9 | $ 256.0 | $ 86.8 | $ 246.8 | $ 1,523.4 |
| Interest | $ 297.1 | $ 183.9 | $ 189.9 | $ 24.8 | $ 80.4 | $ 776.1 |
| Total | $ 910.0 | $ 504.8 | $ 445.9 | $ 111.6 | $ 327.2 | $ 2,299.5 |
| Gross Claim Liability | $ 5.1 | $ 3.8 | $ 1.2 | $ 10.4 | $ 74.0 | $ 94.5 |
| Less: | | | | | | |
| Gross potential recoveries | $ (0.2) | $ — | $ (0.0) | $ (25.3) | $ (17.0) | $ (42.5) |
| Discount, net [(1)] | $ (0.8) | $ (0.5) | $ (0.0) | $ 0.7 | $ (11.4) | $ (12.0) |
| Net Claim Liability | $ 4.1 | $ 3.3 | $ 1.2 | $ (14.2) | $ 45.6 | $ 40.0 |
| Unearned premium revenue[(2)] | $ 2.9 | $ 1.6 | $ 0.1 | $ 0.0 | $ 2.2 | $ 6.8 |
| Net Claim liability reported in the Balance Sheet | | | | | | $ 33.2 |
| Reinsurance recoverables | | | | | | — |

The following table provides information about the financial guaranty policies and related loss reserves in each of the Company's Watch List categories as of December 31, 2009:

| | | Surveillance Categories | | | | |
|---|---|---|---|---|---|---|
| **(dollars in millions)** | **Deals not on watch list** | **Category 1** | **Category 2** | **Category 3** | **Category 4** | **Total** |
| Number of policies | 47 | 81 | 45 | 33 | 62 | 268 |
| Remaining weighted average contract period (in yrs) | 21 | 16 | 35 | 25 | 28 | 21 |
| Insured contractual payments outstanding: | | | | | | |
| Principal | $ 608.0 | $ 287.4 | $ 310.8 | $ 121.2 | $ 299.4 | $ 1,626.8 |
| Interest | $ 313.2 | $ 153.7 | $ 206.1 | $ 33.3 | $ 103.2 | $ 809.5 |
| Total | $ 921.1 | $ 441.1 | $ 517.0 | $ 154.5 | $ 402.6 | $ 2,436.3 |
| Gross Claim Liability | $ 6.0 | $ 3.8 | $ 2.6 | $ 13.7 | $ 73.5 | $ 99.6 |
| Less: | | | | | | |
| Gross potential recoveries | $ — | $ — | $ (1.8) | $ (21.9) | $ (18.6) | $ (42.3) |
| Discount, net | $ (1.2) | $ (0.6) | $ 0.2 | $ (0.1) | $ (3.3) | $ (5.0) |
| Net Claim Liability | $ 4.8 | $ 3.2 | $ 1.0 | $ (8.3) | $ 51.6 | $ 52.3 |
| Unearned premium revenue[(2)] | $ 3.2 | $ 1.6 | $ 0.4 | $ 0.2 | $ 1.5 | $ 7.0 |
| Net Claim liability reported in the Balance Sheet | | | | | | $ 45.3 |
| Reinsurance recoverables | | | | | | — |

(1) The increase in the discount from $5.0 million at December 31, 2009 to $12.0 million at December 31, 2010, was primarily due to the change in the estimate of the timing of cash flows used in the forecasts for our loss reserve estimation.
(2) On policies with a loss reserve but excluding those policies with a recoverable as of December 31, 2010 and 2009.

Categories 1 to 4 in the above table include all financial guaranty contracts on the Company's Watch List at December 31, 2010 and 2009. The column entitled "Deals not on Watch List" includes only financial guaranty exposures for which the Company has established reserves. Policies written in credit derivative form are not included in the above tables. Due to rounding the numbers may not add up to totals.

## 11 OUTSTANDING EXPOSURE

The Company's business consists of 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 the Company. The Company reinsures policies covering both U.S. and international exposures. The Company's portfolio as of December 31, 2010 was diversified by geographic and bond market sector, with no single obligor representing more than 1.5% of the Company's total outstanding par insured.

The following table presents the Company's net par outstanding by credit sector and type of guaranty as of December 31, 2010 and 2009:

| **(dollars in millions)** | **2010** | | **2009** | |
|---|---|---|---|---|
| **US Public Finance** | **Total OS Par** | **% of total** | **Total OS Par** | **% of total** |
| General Obligation and Lease | $ 5,703 | 30.8 | $ 6,155 | 30.2 |
| Tax backed | 1,038 | 5.6 | 1,163 | 5.7 |
| Transportation | 2,104 | 11.4 | 2,207 | 10.8 |
| Healthcare | 894 | 4.8 | 969 | 4.8 |
| Utility | 2,056 | 11.1 | 2,289 | 11.2 |
| Investor Owned Utilities | 76 | 0.4 | 77 | 0.4 |
| Other | 638 | 3.5 | 750 | 3.7 |
| **Total US Public Finance** | **$ 12,509** | **67.6%** | **$ 13,610** | **66.8%** |
| **US Structured Finance** | | | | |
| Commercial ABS and CDOs | $ 2,542 | 13.7 | $ 2,794 | 13.7 |
| RMBS | 465 | 2.5 | 684 | 3.4 |
| Other Structured Finance & Corporate | 148 | 0.8 | 243 | 1.2 |
| **Total US Structured Finance** | **$ 3,155** | **17.0%** | **$ 3,721** | **18.3%** |
| **International** | | | | |
| Asset-backed | $ 1,293 | 7.0 | $ 1,538 | 7.6 |
| Public Finance | 857 | 4.6 | 808 | 4.0 |
| Investor Owned Utilities and Other | 692 | 3.8 | 685 | 3.3 |
| **Total International** | **$ 2,842** | **15.4%** | **$ 3,030** | **14.9%** |
| **Total** | **$ 18,506** | **100.0%** | **$ 20,361** | **100.0%** |

Net outstanding par reinsured at December 31, 2010 and 2009, by geographic location was as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **(dollars in millions)** | **OS Par** | **%** | **OS Par** | **%** |
| Multi-state | $ 3,136 | 16.9 | $ 3,683 | 18.1 |
| International | 2,842 | 15.4 | 3,030 | 14.9 |
| California | 2,267 | 12.3 | 2,378 | 11.7 |
| New York | 1,314 | 7.1 | 1,401 | 6.9 |
| Illinois | 885 | 4.7 | 970 | 4.7 |
| Florida | 844 | 4.6 | 905 | 4.4 |
| Other U.S. States | 7,218 | 39.0 | 7,994 | 39.3 |
| **Total** | **$ 18,506** | **100.0 %** | **$ 20,361** | **100.0 %** |

The above outstanding par amounts are inclusive of outstanding par on credit derivative policies. See Note 4 – Derivative instruments for further information on the outstanding par relating to credit derivative policies. Total GAAP outstanding par includes par on defeased policies which are not included in the above analysis.

## 12 PENSION PLANS

The Company maintains qualified and non-qualified, non-contributory, defined contribution pension plans for the benefit of eligible employees and, effective January 1, 2009, senior management received a cash pension benefit in lieu of a contribution to a deferred compensation plan discussed below. The two remaining plans are administered by a third party. The Company's contributions are based upon a fixed percentage of employee compensation. Pension expense (inclusive of executives' cash contributions), which is funded as accrued, for the years ended December 31, 2010 and 2009 was $0.2 million and $0.5 million, respectively.

The Company maintained a rabbi trust for deferred compensation plans for executives. The rabbi trust held assets such as cash, fixed income and equity securities in the form of mutual funds. 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 the 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, during the year ended December 31, 2009, 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.

## 13 COMMUTATIONS

Assured commutation

On December 22, 2010, RAM Re entered into a Settlement, Reassumption and Release Agreement (the "Assured Commutation Agreement") with Assured Guaranty Corp. ("Assured Guaranty"). The Assured Commutation Agreement provided, among other things, for RAM Re to make a $10.3 million payment to commute seven policies previously assumed from Assured Guaranty, with par in-force of $123.0 million, primarily relating to RMBS securities. In return, each party was released from all liabilities and obligations of the commuted policies.

The effect of the Assured Guaranty commutation on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $0.1 million, resulting in no impact on earned premiums, (ii) increase net change in fair value of credit derivatives by a gain of $11.1 million and (iii) increase losses and loss adjustment expenses of $0.4 million, resulting in an overall gain to net income at the time of commutation of $10.7 million.

<u>Ambac commutation</u>

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 $6.8 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 Ambac Commutation Agreement became effective on April 8, 2009.

The effect of the Ambac commutation on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $155.5 million, resulting in no impact on earned premiums, and (ii) decrease loss and loss adjustment expenses by $8.7 million, resulting in an overall gain to net income at the time of commutation of $8.7 million.

<u>Other commutations</u>

During 2009, the Company completed two other commutations with ceding companies and a retrocessionaire, reducing net outstanding par exposure in RAM Re's insured portfolio by $0.3 billion for net payments totaling $0.9 million. The effect of these commutations on the Company's consolidated results of operations were to (i) decrease gross written premiums and unearned premiums by $1.1 million, (ii) decrease ceded reinsurance premiums and prepaid reinsurance premiums by $1.0 million with no impact on earned premium, (iii) increase net change in fair value of credit derivatives by a gain of $0.9 million, and (iv) increase paid losses by $1.0 million, resulting in an overall reduction to net income of $0.1 million.

## 14 COMMITMENTS AND CONTINGENCIES

During 2009, the Company renewed its agreement to lease office space for the two years ending December 31, 2011. During 2010, the Company assigned the benefit of the lease to an affiliated company, Reid Street Services Ltd. ("RSSL") for the unexpired term, see Note 21- Related party transactions.

In the ordinary course of its business, RAM Re engages in arbitrations under its treaty agreements.

The Company is aware that a civil suit has been filed with the United States District Court, Central District of California, Southern Division by Twenty-Nine Palms Enterprises Corporation, one of the holders of the Class B Preference Shares of RAM Re, but the related complaint has not yet been served on the Company or RAM Re. The complaint was filed on April 11, 2011 and alleges certain violations of the Securities Exchange Act of 1934, Rule 10b-5 thereunder and certain California securities laws, and fraud. The complaint seeks undisclosed monetary damages, rescission, punitive damages and attorneys' fees. At present, the Company and RAM Re deny all claims in the proceedings and intend to vigorously defend themselves in the action.

## 15 RISKS AND UNCERTAINTIES

The Company has not renewed its reinsurance treaties with any of the primaries or otherwise written any new business in 2010. This means that the Company does not expect to write any new financial guaranty, but this does not reduce the Company's in-force business, unless the business is commuted or recaptured by the primaries.

The Company continues to evaluate its financial condition and capital adequacy and may pursue a different set of strategies in the future. For example, the Company is currently considering writing other lines of business, such as short-tail, non-catastrophe, property/casualty reinsurance business. Any such undertaking would require approval of the Company's Board of Directors and regulators. 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 the Company's business, financial condition, liquidity or results of operations or will not have a material adverse effect on the Company. Management believes that the Company has sufficient capital resources and liquidity to meet its obligations for at least the next twelve months and therefore that the Company remains a "going concern".

At December 31, 2010, the Company has $314.1 million of cash and investments of which $225.0 million is held in trust for the benefit of our ceding companies and $6.5 million in escrow accounts, leaving $82.6 million cash and investments available for the cost of ongoing business. See Note 3 – Pledged assets, for further information regarding these trust accounts. Currently, losses are paid out of the Company's unrestricted cash rather than the Company's trust accounts which reduces available cash until the trust accounts are adjusted. The Company is not permitted to withdraw funds from these trust accounts without the ceding companies' express permission. The ceding companies are allowed to withdraw funds from the trust account under certain conditions as specified in the trust agreements.

RAM Holdings is a holding company and therefore its liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the twelve months), 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. The Company's principal uses of liquidity are for payment of non-mandatory dividends on its Series A preference shares if declared by the Board of Directors of RAM Holdings 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, to cover the interest on its unsecured senior notes for the 2009 year and, further to this, during June 2009, RAM Re approved a return of capital of $30.7 million to RAM Holdings to fund liability repurchases (See Note 16 – Long-term debt and Note 17 – Redeemable preference shares, for details of these repurchases). As of December 31, 2010, RAM Holdings has $6.6 million of cash and investments and the Company believes that it will have sufficient liquidity to meet its requirements over at least the next twelve months. RAM Re's ability to declare and pay dividends to the Company may be influenced by a variety of factors such as adverse loss development, 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 (a non GAAP measure representing losses expected to be paid on insured credit derivative policies) 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. Although the Company believes that it will continue to have sufficient liquidity to meet its obligations over the long term, it cannot guaranty that RAM Re will be able to dividend amounts sufficient to satisfy all its 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 premiums net of acquisition expenses, scheduled investment maturities, and net investment income. The principal uses of RAM Re's liquidity are for the payment of operating expenses, claims, ceding commissions, dividends if declared on its Class B preference shares and on its common shares and for purchases of new investments and more recently funding commutation agreements. The Company believes that RAM Re's expected operating liquidity needs can be funded from its operating and investing cash flows for the next twelve months. See Note 23 – Statutory requirements, for further information regarding RAM Re's ability to pay dividends.

As at December 31, 2010, RAM Re is not rated by any agency after having requested the withdrawal of ratings from both S&P and Moody's during 2009 following a number of downgrades. 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 Re must forfeit to the ceding company an amount determined by formula under each treaty which generally consists of RAM Re's allocated share of the U.S. statutory unearned premium, net of the ceding commission paid by RAM Re 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 earn on a different basis than GAAP premiums and do not currently include the present value of future installment premiums. The U.S. statutory unearned premiums were approximately $10.7 million lower than GAAP unearned premiums at December 31, 2010. To date, none of the primaries have recaptured any business. The commutations negotiated during the years 2009 and 2010 were not a result of these treaty terms. See Note 6 – Financial Guaranty Contracts, for disclosure on the financial statement effect of increased ceding commission relating to these downgrades.

Some of the exposures the Company reinsures have been written by ceding companies as credit derivative contracts rather than financial guaranty insurance policies. Traditional financial guaranty insurance provides an unconditional and irrevocable guaranty of payment to the holder of a municipal finance or structured finance obligation of principal and interest on that obligation in the event of a non-payment by the issuer. In contrast, credit derivatives provide protection from the occurrence of specified credit events, which frequently include non-payment of principal and interest ("failure to pay"), but may also include other terms such as settlement of individual referenced collateral losses in excess of policy specific deductibles or subordination amounts. The credit derivatives that protect against failure to pay usually have settlement terms that require the ceding company to pay interest and principal shortfalls as they occur (referred to as "pay-as-you-go"). The Company may be deemed to have assumed reinsurance on credit derivative exposures that have other than "pay-as-you-go" terms. Although the Company considers the occurrence of such payments to be unlikely, the Company is at risk of unanticipated loss payments under insured credit derivative policies that could have an adverse effect on the Company's liquidity. Further, the ceding companies write credit derivatives that are governed by standard International Swaps and Derivatives Association ("ISDA") documentation which can include various events of default related to the primary insurer itself, such as insolvency of or a failure to pay by the primary insurer on any credit derivative with a particular counterparty, which would not typically trigger a payment obligation under traditional financial guaranty. If a credit derivative (or group of credit derivatives) is terminated upon an event of default, the primary could be required to make a mark-to-market payment(s) as determined under the ISDA documentation. While the Company does not believe that its reinsurance contracts obligate it to indemnify the primary insurers for mark-to-market payments resulting from their default under the ISDA documentation, the primary insurer or its regulator may allege that the Company is liable for its pro rata share of such payments and withdraw funds to pay such claims from the trust account for the benefit of that primary insurer.

The underwriting of insured risks and the reporting of underwriting results to the Company are the responsibility of the primary insurers under the treaties. The Company does not "re-underwrite" the transactions ceded under the treaties. The Company's business model has always been that of a reinsurer in which the Company leverages and relies on the operations and reporting of the primary insurers. As a result of this model, the Company is highly dependent on the operating and reporting of the ceding companies. The ceding companies often use complex financial models, which have been internally developed, to produce their results. The Company performs its own assessment of the reasonableness of the information provided by ceding companies (See Note 4 – Derivative instruments, Note 6 - Financial guaranty policies and Note 10 – Losses and loss expense reserve, for details of the work completed by the Company on this information). However, depending on the nature of the information provided by the ceding company, the Company may not be able to identify errors in the reported information in the period in which it is reported, which may be material, as indicated by corrections of errors in primary reported information in prior period financial statements, including financial statements for the three and nine months ended September 30, 2009, for which restated financials were issued.

## 16 LONG-TERM DEBT

On March 26, 2004, RAM Holdings issued $40.0 million of unsecured senior notes (the “Notes”) to a qualified institutional buyer as defined in Rule 144A of the Securities Act of 1933. The term of the Notes was 20 years with the full principal amount due at maturity. The Notes ranked pari passu in right of repayment with RAM Holding’s other unsecured senior debt, of which there is currently none. The net proceeds from the Notes were used to provide capital for RAM Re. The applicable interest rate was 6.875% and was payable semi-annually. The Notes were subject to redemption at the option of RAM Holdings, 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 were no financial covenants in place. Interest expense amounting to $0.9 million was recorded for the year ended December 31, 2010, and $2.5 million for the year ended December 31, 2009.

On April 24, 2009, the Company purchased $5.0 million of these Notes for $1.6 million, realizing a gain of $3.4 million. During 2009, the Company paid $1.0 million to the majority holders of the Notes to amend a replacement capital covenant of the Notes in advance of a tender offer on its Series A Preference Shares, See Note 17 – Redeemable Preference Shares. On March 31, 2010 and June 14, 2010 the Company purchased $10.0 million and $25.0 million of these Notes for $5.5 million and $14.3 million, including accrued interest of $0.3 million and $0.3 million, realizing gains of $4.5 million and $10.8 million, respectively. The Notes that were repurchased were cancelled immediately after such repurchase. As of December 31, 2010 and 2009, $Nil and $35.0 million of the Notes remained outstanding.

## 17 REDEEMABLE PREFERENCE SHARES

On December 14, 2006, the Company issued 75,000 Series A Preference Shares at $1,000 per share for total consideration of $75.0 million. Until December 15, 2016, the Series A 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. After December 15, 2016, if the Series A Preference Shares have not been redeemed or repurchased, they bear a non-cumulative, non-mandatory dividend rate of Three-Month LIBOR (as defined in the Series A Certificate of Designations) plus 3.557%, which is payable quarterly on the 15th day of March, June, September and December of each year, beginning on March 15, 2017, upon declaration by the Board of Directors. Unless previously redeemed, the Series A Preference Shares have a mandatory redemption date of December 15, 2066. The Company can redeem the Series A 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.

On May 12, 2009, the Board determined to suspend payment of dividends on the Series A Preference Shares; therefore, during the year ended December 31, 2010 and 2009, there were no dividends declared or paid. The payment of preference share dividends is classified as interest expense. On March 10, 2010, the Company completed a tender offer for the Series A Preference Shares, pursuant to which 15,300 shares, or 20.40% of the 75,000 shares previously outstanding were validly tendered. The Company accepted for purchase all such Series A Preference Shares that were validly tendered as of the applicable expiration date and paid $3.8 million for all such Series A Preference Shares realizing a gain of $11.5 million. Following the settlement of the tender offer and as of December 31, 2010, 59,700 shares of the Company’s Series A Preference Shares remain outstanding.

## 18 SHARE CAPITAL

As at December 31, 2010 and 2009, authorized share capital was 90,000,000 common shares and 10,000,000 undesignated preference shares with a par value of $0.10 each. Common shares issued and outstanding as at December 31, 2010 and 2009, were 26,394,564 and 26,340,174, respectively. During the years ended December 31, 2010 and 2009, 54,390 and 31,579 restricted share units were vested and issued as share capital, increasing the common shares issued and outstanding. On May 19, 2009, the Company announced its intention to repurchase up to 930,000 of its issued and outstanding common shares. The Company completed this share repurchase plan on June 9, 2009, having repurchased the maximum 930,000 allowed for $286,536. During the third quarter 2009, the Company repurchased 13,000 shares from an employee as part of a redundancy settlement at 110% of book value as of the end of the last financial year. All the repurchased shares are included as a reduction to share capital for the year ended December 31, 2009.

## 19 SHARE BASED COMPENSATION

Prior to January 1, 2006, share options were issued to senior management and directors on an ad hoc basis and 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, as required by the standard for stock issued to employees at that time. Therefore, the intrinsic value is zero for all options granted prior to January 1, 2006 that have the same fair value and strike price and no compensation expense is recognized for the cost of these share options.

Effective January 1, 2006, the Company adopted ASC 718 for stock compensation, 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. The Company continues to account for share options issued prior to January 1, 2006, 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. Options granted prior to January 1, 2006, have not been restated to reflect the adoption of the revised guidance issued in 2006. For both the periods ended December 31, 2010 and 2009, the Company recognized no compensation expense in the periods 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, 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 nominating and corporate governance committee of the Board of Directors. The plan is subject to amendment or termination by the board.

As at December 31, 2010, outstanding awards under the Plan consisting of 416,803 share options and 126,789 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, 2010 ranges from $0.70 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, 2010. There were no options issued in 2009:

| | 2010 |
|---|---|
| Dividend yield | 0% |
| Expected volatility | 143.59% |
| Risk-free interest rate | 2.13% |
| Expected life of options (in years) | 4.0 |
| Weighted-average grant-date fair value | $ 0.70 |

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 pre-vesting forfeitures of 10% for both periods. The estimated forfeiture rate is based on actual forfeitures adjusted for future forfeiture expectations due to limited historical forfeiture data. At December 31, 2010, the weighted average grant date fair value for options issued subsequent to January 1, 2006 for disclosure purposes was $1.44.

The Company expensed $0.2 million and $0.4 million in compensation expense related to the options for the years ended December 31, 2010 and 2009, respectively. As at December 31, 2010, there was $0.1 million of unrecognized compensation expense related to the share options granted subsequent to January 1, 2006, which is expected to be recognized over the remaining service period of 1.52 years.

The following tables summarize the share option activity for the years ended December 31, 2010 and 2009:

| **Year ended December 31, 2010 Options** | **Number of shares** | **Weighted average exercise price per share** | **Weighted average Remaining Contractual Life** | **Aggregate Intrinsic Value [1]** |
|---|---|---|---|---|
| Outstanding – beginning of year | 1,443,469 | 8.29 | | |
| Granted | 120,000 | 0.70 | | |
| Forfeited | (643,566) | 7.17 | | |
| Outstanding – End of year | 919,903 | 8.11 | 3.02 | 26,400 |
| Exercisable – end of year | 686,857 | 10.21 | — | — |
| Weighted average fair value per share of options granted during the period | $ | 0.60 | | |

| Year ended December 31, 2009 | Number of shares | Weighted average exercise price per share | Weighted average Remaining Contractual Life | Aggregate Intrinsic Value [(1)] |
|---|---|---|---|---|
| **Options** | | | | |
| Outstanding – beginning of year | 2,116,497 | 7.59 | | |
| Granted | — | — | | |
| Forfeited | (673,028) | 6.10 | | |
| Outstanding – End of year | 1,443,469 | 8.29 | 4.56 years | $ — |
| Exercisable – end of year | 903,219 | 10.52 | — | $ — |
| Weighted average fair value per share of options granted during the period | $ | N/A | | |

(1) The aggregate intrinsic value was calculated based on the market value of $0.92 and $0.49 as at December 31, 2010 and 2009, respectively,, and is calculated as the difference between the market value and the exercise price of the underlying options.

***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, 2010 and 2009:

| 12 months ended December 31, 2010 | Number of share units | Weighted average grant date fair value per share |
|---|---|---|
| **Restricted Share Units** | | |
| Non-vested – beginning of year | 66,483 | 4.11 |
| Granted | 114,696 | 0.70 |
| Vested | (54,390) | 4.03 |
| Forfeited | — | — |
| Non-vested – End of year | 126,789 | 1.06 |

| 12 months ended December 31, 2009 | Number of share units | Weighted average grant date fair value per share |
|---|---|---|
| **Restricted Share Units** | | |
| Non-vested – beginning of year | 139,627 | 4.82 |
| Granted | — | — |
| Vested | (31,579) | 5.38 |
| Forfeited | (41,565) | 5.54 |
| Non-vested – End of year | 66,483 | 4.11 |

The Company expensed $0.2 million and $0.1 million in compensation expense related to the restricted share units for the years ended December 31, 2010 and 2009, respectively. The compensation expense for restricted share units is expensed on a prorated basis over the vesting period. At December 31, 2010, there is unrecognized compensation expense related to the non-vested restricted share units of $0.1 million, which will be recognized over the weighted average remaining service period of 3.07 years.

## 20 EARNINGS/(LOSS) 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, 2010 and 2009, there were 919,903 and 1,443,469, respectively, of stock options excluded from the diluted earnings per share calculation because they were anti-dilutive. At December 31, 2010, 1,315 restricted stock units were included in the diluted earnings per share calculations. At December 31, 2009, all restricted share 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, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Net income available to common shareholders | $ 11,785,579 | $ 26,259,010 |
| Basic weighted-average shares | 26,379,781 | 26,720,456 |
| Effect of stock options | — | — |
| Effect of restricted stock units | 1,315 | — |
| Diluted weighted-average shares | 26,381,096 | 26,720,456 |
| Basic earnings per share | $ 0.45 | $ 0.98 |
| Diluted earnings per share | $ 0.45 | $ 0.98 |

## 21 RELATED PARTY TRANSACTIONS

On May 1, 2010 the Company entered into a management agreement (“the Management Agreement”) with RSSL, which is a wholly-owned subsidiary of a company, which owns approximately 38% of the outstanding common shares of RAM Holdings, and in which, one of its directors also serves as a director of RAM Holdings and RAM Re. RSSL is licensed as an insurance management company and is able to provide insurance management services to its affiliate entities. Pursuant to the terms of the Management Agreement RSSL employed all of the employees of the Company and RAM Re with the exception of the Chief Executive Officer. RSSL simultaneously entered into an assignment of lease agreement with RAM Re which effectively assigned the benefit of the master lease agreement to RSSL for the unexpired term – See Note 14 - Commitments and contingencies. Thereafter, RSSL began providing professional services to the Company and RAM Re, which principally comprised: policyholder and related services; maintenance of books and records; drafting of financial and quarterly reports; production of government reports; and the maintenance of the investments and bank accounts. For its services, the Company and RAM Re are required to pay RSSL a service fee equivalent to the sum of leasehold costs and employee costs based on a prescribed formula. During the period from May 1, 2010 to December 31, 2010, the Company incurred $1.2 million in services fees from RSSL which is included in operating expenses in the Company’s Consolidated Statements of Operations, of which an immaterial amount remains outstanding and is included in accounts payable and accrued liabilities in the Company’s Consolidated Balance Sheet as of December 31, 2010.

## 22 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. Effective March 25, 2011, the Bermuda government has extended the date to which a company is entitled to an exemption from March 28, 2016 until March 31, 2035. The Company is in the process of applying for this extension. 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.

## 23 STATUTORY REQUIREMENTS

RAM Re is registered as a Class 3A insurer effective December 17, 2009 and is regulated as such under the Bermuda Insurance Act. Prior to December 17, 2009, RAM Re was registered as a Class 3B insurer.

RAM Re is registered under the Bermuda Insurance Act 1978, amendments thereto and related regulations (the "Bermuda Insurance Act"), which require that they maintain minimum levels of solvency and liquidity. As at December 31, 2010, the minimum required statutory capital and surplus was $6.3 million, and actual statutory capital and surplus was $148.0 million. As at December 31, 2009, the minimum required statutory capital and surplus was $9.7 million and actual statutory capital and surplus was $127.7 million. Statutory income was $17.4 million for the year ended December 31, 2010 and was $38.3 million for the year ended December 31, 2009.

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. Management believes they are in compliance with these requirements as at December 31, 2010. The minimum required level of liquid assets was $135.3 million and $168.4 million and actual liquid assets were $328.3 million and $352.2 million as of December 31, 2010 and 2009, respectively.

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. Further to this, Class 3A insurers must obtain the BMA's prior approval before reducing total statutory capital, as shown on their respective previous financial year statutory balance sheets, by 15% or more.

Based upon this test for a Class 3A insurer, without obtaining approval from the BMA, the maximum amount that will be available during 2011 for the reduction to capital by RAM Re, is approximately $52.9 million. In early July 2008, the Insurance Amendment Act of 2008 was passed, which introduced a number of changes to the Bermuda Insurance Act, such as allowing the BMA to prescribe standards for an enhanced capital requirement and a capital and solvency return that insurers and reinsurers must comply with. The Bermuda Solvency Capital Requirement ("BSCR") employs a standard mathematical model that can relate more accurately the risks taken on by (re)insurers to the capital that is dedicated to their business. Insurers and reinsurers may adopt the BSCR model or, where an insurer or reinsurer believes that its own internal model better reflects the inherent risk of its business, an in-house model approved by the BMA. Although initially established in respect of Class 4 (re)insurers, the requirements have now been extended to Class 3A reinsurers, such as RAM Re. RAM Re is now required to implement the new capital requirements under the BSCR model beginning with fiscal years ending on or after December 31, 2010. As part of this process, RAM Re is required to submit a trial run to the BMA in respect of the 2010 financial year by June 30, 2011. In addition to the BSCR based requirements, the BMA also prescribes minimum liquidity standards which must be met. RAM Re is in the process of completing its trial run submission of the BSCR to the BMA.

Statutory financial statements prepared under the Bermuda Insurance 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 of losses on derivative policies.

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 guaranty obligations made in respect of indebtedness of RAM Re or RAM Holdings) or (ii) to pay its operating expenses.

## 24 SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 5, 2011, which is the date the financial statements were issued.

Effective April 15, 2011, RAM Re entered into a Settlement Agreement (the "Settlement Agreement") with one of its ceding companies. The Settlement Agreement provided, among other things, for RAM Re to make a $2.3 million payment to commute the reinsurance with respect to certain policies written in credit derivative form, with par in-force as of December 31, 2010 of $129.8 million. Under the Settlement Agreement, each party was released from all liabilities and obligations under the commuted reinsurance. The effect of this transaction will be recorded by the Company in the second quarter of 2011.

On April 15, 2011, Assured Guaranty Ltd. and its subsidiaries ("Assured") announced that they had reached a settlement with Bank of America Corporation and its subsidiaries regarding their liabilities with respect to various RMBS transactions insured by Assured, including claims relating to reimbursement for breaches of representations and warranties ("R&W"). The Company has determined that a number of its policies ceded from Assured would be affected by this settlement. The Company anticipates that a substantial amount of its R&W credit will be reduced by cash receipts on these credits; however, there is considerable uncertainty regarding the timing and amount of these payments and the impact on the Company's consolidated balance sheets and consolidated statements of operations at this time. The Company expects to record the impact of this transaction in 2011.

See also Note 14 – Commitments and Contingencies, for details of legal actions made against the Company subsequent to the balance sheet date.

# Directors and Executive Officers

**Director Biographies**

Set forth below is biographical information concerning each director of RAM Holdings and RAM Re as of December 31, 2010, 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**<br>Age 56<br>Director since 1998<br>Chairman of the Board of Directors since 2001 | Mr. Tynan is a retired private investor. He co-founded High Ridge Capital LLC, a private equity firm that specialized in the insurance sector, in 1995 and served as a member of the firm through 2009 when all of its remaining portfolio investments were liquidated. Mr. Tynan holds a BBA degree from Hofstra University and is a Certified Public Accountant. Mr. Tynan is a director of Orpheus Group Ltd. in Bermuda as well as all of its direct and indirect subsidiaries in Bermuda and the United States, including Calliope Investments Ltd. in Bermuda and Reid Street Services Ltd. in Bermuda. |
| **Edward F. Bader**<br>Age 69<br>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 is a director of Hannover Life Reassurance Company of America. Mr. Bader received a B.S. degree in Economics from Fairfield University. |
| **David L. Boyle**<br>Age 64<br>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. |
| **Clement S. Dwyer Jr.**<br>Age 62<br>Director since March 1, 2010 | Mr. Dwyer is President of URSA Advisors, Inc. of Portsmouth, New Hampshire, a provider of insurance, reinsurance and capital raising advisory services. Previously he served as President of Signet Star Holdings, Inc., a reinsurance subsidiary of W.R. Berkeley Corp in 1996. From 1970 until 1996 he held various positions at Guy Carpenter & Company, including most recently Executive Vice President and Director. He received a B.A. degree from Tufts University and completed the Executive Program at Stanford University Graduate School of Business. Mr. Dwyer is also a director of Montpelier Reinsurance Holdings, Ltd. in Bermuda, Chairman and a director of Old American County Mutual Fire Insurance Co. of Dallas, Texas, a director of Dowling & Partners of Farmington, Connecticut and a director of ProSight Specialty Holdings Inc. of Santa Rosa, California. |

**David K. Steel**

| | |
|---|---|
| Age 53<br>President, Chief Executive Officer and Director since 2010 | David K. Steel, President, Chief Executive Officer and Director, originally joined us in August 2005 as our Chief Risk Manager and has served as President, Chief Executive Officer and Director of RAM Holdings and RAM Re since May 2010. Mr. Steel was formerly a Managing Director and Portfolio Manager of Hanover Capital Mortgage Holdings, Inc. 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. |

(1) On February 14, 2011 David W. Geiss and Steve Gralla were appointed to the Board of Directors of RAM Re. Messrs. Geiss and Gralla were elected by the holders of RAM Re's Class B Preference Shares at a special general meeting of holders of Class B Preference Shares. Subsequent to February 14, 2011, Steve Gralla notified RAM Re that he declined to accept the appointment as he was unable to serve on the Board of Directors of RAM Re.

**Executive Biographies**

Biographical information concerning David K. Steel, our sole executive officer as of December 31, 2010, is set forth above under “Director Biographies”. Subject to rights pursuant to any employment agreements, officers serve at the pleasure of our Board of Directors.

**Board of Directors Committees**

As of December 31, 2010, we have an audit committee, a compensation nominating and corporate governance committee, and a risk management committee.

| Director | Audit Committee | Compensation Nominating and Corporate Governance Committee (1) | Risk Management Committee (1) |
|---|---|---|---|
| Edward F. Bader | X* | X | X |
| David L. Boyle | X | X | X* |
| Clement S. Dwyer Jr. | X | X | X |
| Steven J. Tynan | X | 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.

## Security Ownership of Executive Officers and Directors

Pursuant to Regulation 6.9(2)(x)(a) and (b) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Company in the common shares of the Company as at December 31, 2010, were 736,152 shares.

## Equity Compensation of Directors

The table below sets forth the aggregate number of shares underlying option awards outstanding at fiscal year-end 2010 for each director as of December 31, 2010, who has received option awards (other than Mr. Steel).

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

Share options granted to the directors under 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 Executive Officers

The following table shows equity awards granted to officers of the Company outstanding at December 31, 2010:

| | Option Awards | | | | RSU Awards | |
|---|---|---|---|---|---|---|
| Name | Number of Common Shares Underlying Unexercised Options (#) Exercisable | Number of Common Shares Underlying Unexercised Options (#) Unexercisable | Option Exercise Price ($) | Option Expiration Date | Number of Shares that Have Not Vested (#) | Market Value of Shares That Have Not Vested ($)(1) |
| **David K. Steel** | 149,500 | — | 12.03 | 6/30/2015 | — | — |
| | 37,921 | — | 13.45 | 5/2/2013 | — | — |
| | 37,486 | 12,496 | 16.20 | 2/20/2014 | — | — |
| | — | — | — | — | 1,918 | 1,765 |
| | 99,250 | 99,250 | 1.45 | 3/5/2015 | — | — |

(1) Based on the closing price of $0.92 per share on December 31, 2010.

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, 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 2010:

| | Option Awards | | RSU Awards | |
|---|---|---|---|---|
| **Name** | **Number of Shares Acquired on Exercise (#)** | **Value Realized on Exercise ($)** | **Number of Shares Acquired on Vesting (#)** | **Value Realized on Vesting ($)** |
| **David K. Steel** | — | — | 1,918 | 940 (1) |

(1) Value based on the closing price of RAM Holdings common shares of $0.49 on February 19, 2010 (being the business day closest to the actual vesting date of Feb 20, 2010).

## Director Service Contracts and Other Contracts of Significance

There are no service contracts with directors.

On May 1, 2010 the Company entered into a management agreement ("the Management Agreement") with RSSL, which is a wholly-owned subsidiary of a company, which owns approximately 38% of the outstanding common shares of RAM Holdings, and in which, one of its directors also serves as a director of RAM Holdings and RAM Re. RSSL is licensed as an insurance management company and is able to provide insurance management services to its affiliate entities. Pursuant to the terms of the Management Agreement RSSL employed all of the employees of the Company and RAM Re with the exception of the Chief Executive Officer. RSSL simultaneously entered into an assignment of lease agreement with RAM Re which effectively assigned the benefit of the master lease agreement to RSSL for the unexpired term. Thereafter, RSSL began providing professional services to the Company and RAM Re, which principally comprised: policyholder and related services; maintenance of books and records; drafting of financial and quarterly reports; production of government reports; and the maintenance of the investments and bank accounts. For its services, the Company and RAM Re are required to pay RSSL a service fee equivalent to the sum of leasehold costs and employee costs based on a prescribed formula.

## Forward-Looking Statements

Some of the statements under “Business,” “Management’s Analysis of Results of Operations,” and elsewhere in this annual report include forward-looking statements which reflect our current views with respect to future events and financial performance. These statements include, without limitation, our expectations respecting the volatility of our insured portfolio, losses, loss reserves and loss development, the adequacy and availability of our liquidity and capital resources, our current run off strategy, our consideration of other reinsurance businesses, and our expense reduction measures. Statements which include the words “expect,” “intend,” “plan,” “believe,” “project,” “anticipate,” “should,” “could,” “may,” “will” and similar words or statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to the following: (i) our ability to execute our business strategy, including with respect to any new reinsurance businesses; (ii) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors; (iii) the loss of significant customers with which RAM Re has a concentration of its reinsurance in force; (iv) legislative and regulatory developments; (v) changes in regulation or tax laws applicable to us or our customers; (vi) more severe or more frequent losses associated with RAM Re's insured portfolio; (vii) losses on credit derivatives; (viii) changes in our accounting policies and procedures that impact our reported financial results; (ix) the effects of ongoing and future litigation; and (x) other risks and uncertainties that have not been identified at this time.

The foregoing review of important factors should not be construed as exhaustive. We undertake no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those we projected. Any forward-looking statements you read in this annual report reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our business, operations, results of operations, financial condition, strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or to individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified in this annual report which could cause actual results to differ before making an investment decision.

## 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 2010 quarterly reports 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:
BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, New Jersey 07310-1900
USA

Web Address: http://www.bnymellon.com/shareowner/isd

### Independent Registered Auditors

Deloitte & Touche Ltd.