RAM HOLDINGS LTD.

2010 ANNUAL REPORT

RAM Holdings Ltd.

TABLE OF CONTENTS

Letter from President and CEO 1
Business 3
Selected Five Year Financial Data 5
Management’s Analysis of Results of Operations 7
Audited Financial Statements 11
- Report of Independent Auditors 12
- RAM Holdings Ltd. Consolidated Balance Sheets December 31, 2010 and 2009 13
- RAM Holdings Ltd. Consolidated Statements of Operations 14
- RAM Holdings Ltd. Consolidated Statements of Comprehensive Income (Loss) 15
- RAM Holdings Ltd. Consolidated Statements of Shareholders’ Equity and Retained (Deficit) 16
- RAM Holdings Ltd. Consolidated Statements of Cash Flows 17
- RAM Holdings Ltd. Notes to Consolidated Financial Statements 18

Directors and Executive Officers Information 62

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