

CIFG Holding
Consolidated Financial Statements
December 31, 2006, 2005 and 2004

CIFG Holding
Consolidated Financial Statements
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Report of Independent Auditors

To the Members of the Supervisory Board
and Shareholders of CIFG Holding:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholder's equity and comprehensive (loss) income, and cash flows present fairly, in all material respects, the financial position of CIFG Holding and its subsidiaries (the "Company") at December 31, 2006 and December 31, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. 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 audits. We conducted our audits of these statements 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company has restated the accompanying financial statements for the years ended December 31, 2005 and 2004.

PricewaterhouseCoopers LLP

New York, New York
April 6, 2007

CIFG Holding
Consolidated Balance Sheets
(In '000s, except per share amounts)

	As of December 31,		
	2006		2005
	€	\$ (Unaudited) (a)	€ Restated
Assets			
Investments			
Fixed income securities, available for sale, at fair value (amortized cost of €634,193 and €591,041)	€ 611,439	\$ 803,645	€ 595,927
Short-term investments, at cost (approximates fair value)	83,242	109,409	58,603
Total Investments	694,681	913,054	654,530
Cash	8,907	11,707	9,656
Premiums receivable	14,479	19,030	9,876
Receivable for securities sold	---	---	3,379
Investment income due and accrued	12,316	16,188	11,350
Prepaid reinsurance premiums	3,149	4,139	2,538
Reinsurance recoverable on unpaid loss and loss adjustment expense reserves	108	142	87
Intangible asset – licenses acquired in acquisition	6,339	8,331	7,037
Property and equipment, net of accumulated depreciation of €1,744 in 2006 and €1,477 in 2005	1,419	1,865	844
Deferred acquisition costs, net	47,313	62,186	41,235
Derivative assets	749	984	125
Other assets	132	174	625
Total Assets	€ 789,592	\$ 1,037,800	€ 741,282
Liabilities and Shareholders' Equity			
Liabilities			
Deferred premium revenue	€ 198,384	\$ 260,746	€ 152,538
Loss and loss adjustment expense reserves	5,938	7,805	3,412
Deferred income taxes	14,340	18,848	10,632
Income taxes payable	4,540	5,967	3,897
Long-term debt	74,942	98,500	83,196
Derivative liabilities	469	616	409
Accounts payable, accrued expenses and other liabilities	21,467	28,215	17,557
Total Liabilities	320,080	420,697	271,641
Shareholders' Equity			
Common stock (par value €9.00 per share; in 2006 – 54,023,892, and 2005 – 53,768,082 authorized; in 2006 and 2005 - 50,008,720 issued and outstanding shares)	450,078	591,560	450,078
Additional paid-in-capital	56,408	74,140	54,426
Retained earnings	16,562	21,768	(6,752)
Legal reserve	1,084	1,424	804
Accumulated other comprehensive (loss) (net of deferred income taxes of (€7,913) and €1,298)	(54,620)	(71,789)	(28,915)
Total Shareholders' Equity	€ 469,512	\$ 617,103	€ 469,641
Total Liabilities and Shareholders' Equity	€ 789,592	\$ 1,037,800	€ 741,282

(a) The financial statements are stated in euros. The translation of euros into U.S. dollars is presented solely for the convenience of the reader, using the observed exchange rate at December 31, 2006 of \$1.31435 to €1.00. This convenience translation should not be construed as representation that the euro amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any rate of exchange.

The accompanying notes are an integral part of these financial statements.

CIFG Holding
Consolidated Statements of Operations
(In '000s)

	Years ended December 31,			
	2006		2005	2004
	€	\$ (Unaudited) (a)	Restated €	Restated €
Revenues				
Gross premiums written	€ 119,166	\$ 156,626	€ 93,038	€ 56,518
Ceded premiums written	(1,452)	(1,908)	(1,385)	(1,399)
Net premiums written	117,714	154,718	91,653	55,119
Change in net deferred premium revenue	(61,240)	(80,491)	(53,822)	(28,740)
Net premium earned (net of ceded earned premium of €832 in 2006, €326 in 2005, and €230 in 2004)	56,474	74,227	37,831	26,379
Net Investment income	24,191	31,795	14,819	2,938
Net realized capital gains	265	348	2,500	6,200
Net realized and unrealized gains (losses) on credit derivatives, net	536	705	(210)	2
Foreign exchange gain (loss), net	11,013	14,475	(9,513)	1,082
Other Income	529	695	114	653
Total revenues	<u>93,008</u>	<u>122,245</u>	<u>45,541</u>	<u>37,254</u>
Expenses				
Losses and loss adjustment expenses, net	2,254	2,963	1,569	1,154
Amortization of deferred acquisition costs	9,641	12,672	5,071	2,785
Operating expenses	30,554	40,159	22,981	20,210
Interest expense	3,518	4,624	3,403	73
Total expenses	<u>45,967</u>	<u>60,418</u>	<u>33,024</u>	<u>24,222</u>
Income before income taxes	47,041	61,827	12,517	13,032
Provision for income tax	23,447	30,818	6,186	4,644
Net Income	<u>€ 23,594</u>	<u>\$ 31,009</u>	<u>€ 6,331</u>	<u>€ 8,388</u>

(a) The financial statements are stated in euros. The translation of euros into U.S. dollars is presented solely for the convenience of the reader, using the observed exchange rate at December 31, 2006 of \$1.31435 to €1.00. This convenience translation should not be construed as representation that the euro amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any rate of exchange.

The accompanying notes are an integral part of these financial statements.

CIFG Holding
Consolidated Statements of Changes in Shareholders' Equity and
Comprehensive (Loss) Income
(In '000s)

	Years ended December 31		
	2006	2005 Restated	2004 Restated
Common Shares			
Shares at beginning of period	50,009	50,009	50,009
Issuance of company shares	---	---	---
Shares as of December 31	<u>50,009</u>	<u>50,009</u>	<u>50,009</u>
Common Stock			
Balance at beginning of period	€ 450,078	€ 450,078	€ 500,087
Issuance of Company shares	---	---	---
Change in par value of shares	---	---	(50,009)
Balance as of December 31	<u>450,078</u>	<u>450,078</u>	<u>450,078</u>
Additional paid-in capital			
Balance at beginning of period	54,426	52,875	---
Change in par value of shares	---	---	50,009
Stock- based compensation- stock options	1,982	1,551	2,866
Balance as of December 31	<u>56,408</u>	<u>54,426</u>	<u>52,875</u>
Retained earnings (accumulated deficit)			
Balance at beginning of period, as previously reported	---	---	(21,204)
Restatement adjustment	---	---	269
Balance at beginning of period, as restated	<u>(6,752)</u>	<u>(12,797)</u>	<u>(20,935)</u>
Net income	23,594 € 23,594	6,331 € 6,331	8,388 € 8,388
Transfer to reserve legal	(280)	(286)	(250)
Balance as of December 31	<u>16,562</u>	<u>(6,752)</u>	<u>(12,797)</u>
Legal Reserve			
Balance at beginning of period	804	518	267
Transfer from retained earnings	280	286	251
Balance as of December 31	<u>1,084</u>	<u>804</u>	<u>518</u>
Accumulated other comprehensive (loss) income			
Balance at beginning of period, as previously reported	---	---	(35,687)
Restatement adjustment	---	---	(269)
Balance at beginning of period, as restated	<u>(28,915)</u>	<u>(46,783)</u>	<u>(35,956)</u>
Net change in unrealized depreciation of securities, net of deferred tax benefit of €9,211 in 2006, €(1,799) in 2005, and €734 in 2004	(18,428)	6,574	(3,149)
Change in currency translation	(7,277)	11,294	(7,678)
Other comprehensive (loss) income	(25,705) (25,705)	17,868 17,868	(10,827) (10,827)
Total comprehensive (loss) income	<u>€ 2,111</u>	<u>€ 24,199</u>	<u>€ (2,439)</u>
Balance as of December 31	<u>(54,620)</u>	<u>(28,915)</u>	<u>(46,783)</u>
Total Shareholders' Equity	<u>€ 469,512</u>	<u>€ 469,641</u>	<u>€ 443,891</u>
Disclosure of reclassification amounts			
Unrealized depreciation arising during the period, net of taxes	€ (18,424)	€ 6,576	€ (3,154)
Less: reclassification adjustment for net (losses) gains included in income net of taxes	<u>(4)</u>	<u>(2)</u>	<u>5</u>
Net unrealized (depreciation) appreciation of securities, net of taxes	<u>€ (18,428)</u>	<u>€ 6,574</u>	<u>€ (3,149)</u>

The accompanying notes are an integral part of these financial statements.

CIFG Holding
Consolidated Statements of Cash Flows
(In '000s)

	Years ended December 31,		
	2006	2005	2004
		Restated	Restated
Cash flows from operating activities			
Net income	€ 23,594	€ 6,331	€ 8,388
Adjustments to reconcile net income to net cash provided by operating activities			
Amortization of bond premium	5,974	3,399	489
Depreciation	423	402	395
Increase in loss and loss adjustment expense reserves, net	2,254	1,355	1,302
Increase in deferred premium revenue	66,058	55,007	18,052
(Increase) in prepaid reinsurance premiums	(611)	(1,050)	(1,226)
(Increase) in deferred acquisition costs	(6,078)	(16,909)	(8,054)
Increase in stock-based compensation	1,983	1,551	2,867
(Increase) in premium receivable	(5,697)	(2,987)	(2,330)
(Decrease) increase in ceded reinsurance balances payable	(522)	645	(212)
Increase in accounts payable and accrued expenses	2,006	4,554	268
(Increase) in investment income due and accrued	(1,122)	(9,836)	(882)
Increase in deferred income tax	6,586	7,499	3,756
Net realized gains on sale of investments	(265)	(2,500)	(6,200)
Net realized and unrealized (gains) losses on credit derivatives, net	(536)	210	(2)
Increase (decrease) in inter-company payable to affiliates	449	(185)	187
Effect of foreign exchange	(15,552)	17,145	5,090
Other, net	6,288	3,247	(1,279)
Net cash provided by operating activities	<u>85,232</u>	<u>67,878</u>	<u>20,609</u>
Cash flows from investing activities			
Purchase of fixed income securities, net	(98,418)	(486,515)	(116,881)
Proceeds from the sale of fixed income securities, net	42	6,854	2,757
Proceeds from the maturity of fixed income securities, net	42,314	39,412	23,332
(Purchase) sale of short-term investments, net	(28,346)	365,881	10,044
Capital expenditures, net	(1,123)	(150)	(152)
Net cash (used) by investing activities	<u>(85,531)</u>	<u>(74,518)</u>	<u>(80,900)</u>
Cash flows from financing activities			
Net proceeds from the issuance of long-term debt	---	7,180	65,982
Net cash provided by financing activities	<u>---</u>	<u>7,180</u>	<u>65,982</u>
Effect of exchange rate changes on cash	(450)	1,144	(22)
(Decrease) increase in cash	(749)	1,684	5,669
Cash at beginning of period	9,656	7,972	2,303
Cash as of end of year	<u>€ 8,907</u>	<u>€ 9,656</u>	<u>€ 7,972</u>
Supplemental disclosures of cash flow information			
Taxes paid	€ 8,304	€ 460	€ ---
Interest paid	3,398	3,282	---

The accompanying notes are an integral part of these financial statements.

CIFG Holding
Notes to Consolidated
Financial Statements (continued)
December 31, 2006, 2005 (restated) and 2004 (restated)
(Amounts in thousands)

1. Business and Organization

CIFG Holding (“CIFG Holding” or the “Company”), formed in 2001, is a French *société anonyme* that is a wholly-owned subsidiary of Natixis, a French *société anonyme*. On November 17, 2006, Banque Fédérale des Banques Populaires (“BFBP”), and Caisse Nationale des Caisses d’Epargne (“CNCE”) combined certain of their operations through Natexis Banques Populaires (“Natexis”). CNCE contributed CIFG Holding and its subsidiaries, as well as other assets, to Natexis, which was simultaneously renamed “Natixis”. As of December 31, 2006, CNCE and BFBP each owned approximately 34.4% of Natixis, with approximately 31.12% owned by public float and institutional shareholders. Until November 17, 2006 CIFG Holding was wholly owned by CNCE.

CIFG Holding and its subsidiaries (the “CIFG Group”) constitute a monoline financial guaranty group engaged solely in the financial guaranty business.

The consolidated financial statements of the CIFG Group are comprised of CIFG Holding, CIFG Guaranty, a French *société anonyme*, CIFG Europe, a French *société anonyme* which is a wholly-owned subsidiary of CIFG Guaranty, CIFG Services, Inc. (“CIFG Services”), also a wholly-owned subsidiary of CIFG Guaranty, CIFG Assurance North America, Inc. (“CIFG NA”), indirectly owned by CIFG Services, and certain variable interest entities (described below).

In order to comply with certain U.S. state restrictions regarding the ownership or control of U.S. insurance companies by a foreign government or any agency or instrumentality thereof, CIFG Services transferred all of the outstanding shares of CIFG NA to a voting trust. Under the terms of the Voting Trust Agreement, 80% of the trustees must be directors or officers of CIFG Services, or CNCE. Although the shares are legally owned by the voting trustees in accordance with the Voting Trust Agreement, CIFG Services retains the economic benefits of the shares of CIFG NA. As such, CIFG Services is entitled to receive all dividends and distributions declared and paid by CIFG NA, and thus, the financial statements of CIFG NA are included in these consolidated financial statements.

CIFG Guaranty, established in 2001, is a financial guaranty reinsurance company domiciled in France that provides reinsurance solely to CIFG Europe and CIFG NA. CIFG Europe, established in 2001, is a monoline financial guaranty company domiciled in France that is licensed to conduct business in 20 member states of the European Union. CIFG NA, established in 2002, is a monoline financial guaranty company domiciled in the State of New York that, as of December 31, 2006, was licensed to transact financial guaranty insurance in 45 U.S. states, the District of Columbia, the U.S. Virgin Islands and the Commonwealth of Puerto Rico.

In the ordinary course of business, the Company’s subsidiaries CIFG Europe and CIFG NA have issued financial guaranty contracts in respect of certain obligations of certain variable interest entities (VIEs). Specifically, CIFG Europe has issued financial guaranty contracts in respect of obligations of Mogador Ltd., a VIE that is a corporation established in Jersey, which is owned by Mogador Trust, a Jersey-based charitable trust. CIFG NA has issued financial guaranty contracts in respect of certain obligations of multiple distinct New York State business trusts, collectively known as the New Generation Funding Trusts. The financial guaranty contracts generally provide credit protection to investors who have entered into credit derivative

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transactions with the respective VIEs. Other than the transactions described above, the VIEs own no assets and have no outstanding debt and, by virtue of the credit support provided by the financial guaranty contracts, CIFG Europe and CIFG NA are considered to be the primary beneficiaries of these VIEs. Accordingly, these VIEs are consolidated by these subsidiaries.

Each of CIFG Guaranty, CIFG Europe and CIFG NA have received an insurer financial strength rating of "AAA" from Fitch Ratings, an insurer financial strength rating of "Aaa" from Moody's Investors Services Inc., and an insurer financial strength and financial enhancement ratings of "AAA" from Standard and Poor's Rating Services ("S&P"), the highest rating assigned by each rating agency.

2. Restatement of Previously Issued Financial Statements

The Company has restated its financial statements for the years ended December 31, 2005 and 2004. The restatement arises from the correction of an error related to the Company's accounting for available-for-sale ("AFS") investments using Statement of Financial Accounting Standards ("SFAS") No. 52 - "Foreign Currency Translation" ("FAS 52"), FAS No. 115 - "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"), and Emerging Issues Task Force 96-15 - "Accounting for the Effects of Changes in Foreign Currency Exchange Rates on Foreign-Currency-Denominated Available-for-Sale Debt Securities" ("EITF 96-15"). The Company previously recognized unrealized foreign exchange gains and losses on AFS securities in the income statement and should have recorded such unrealized gains and losses in Other Comprehensive Income ("OCI"). Accordingly, the Company has restated its 2005 and 2004 financial statements to report the unrealized foreign exchange gains and losses in OCI. There was no impact to consolidated shareholders' equity as a result of this restatement.

In addition, the Company has corrected the statement of cash flows to appropriately classify the impact of foreign exchange as an adjustment to reconcile net income to net cash provided by operating activities for the periods ended December 31, 2005 and 2004.

Opening retained earnings and OCI for 2004 have each been restated by €269 thousand.

The impact of the aforementioned restatements on the balance sheet, income statement and statement of cash flows are as follows:

Selected Balance Sheet Accounts	As of December 31, 2005	
	Previously Reported	Restated
Accumulated (deficit)	€ (4,361)	€ (6,752)
Accumulated other comprehensive loss	(31,306)	(28,915)
Total shareholders' equity	469,641	469,641

CIFG Holding
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(Amounts in thousands)

	<u>Previously Reported</u>	<u>Restated</u>	<u>Previously Reported</u>	<u>Restated</u>
Selected Income Statement Accounts				
Net foreign exchange (losses) gains	€ (1,845)	€ (9,513)	€ 390	€ 1,082
Total revenues	53,209	45,541	36,562	37,254
Income before income taxes	20,186	12,517	12,340	13,032
Provision for income tax	10,915	6,186	4,231	4,644
Net Income	9,271	6,331	8,109	8,388

	<u>For the Year Ended December 31, 2005</u>		<u>For the Year Ended December 31, 2004</u>	
	<u>Previously Reported</u>	<u>Restated</u>	<u>Previously Reported</u>	<u>Restated</u>
Selected Accounts from the Statement of Cash Flow Accounts				
Net income	€ 9,271	€ 6,331	€ 8,109	€ 8,388
Effect of foreign exchange on cash provided from operations	---	17,145	---	5,090
Cash provided by operating activities	53,674	67,878	15,240	20,609
Effect of exchange rates on cash	15,349	1,144	5,347	(22)

3. Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior year balances have been reclassified to conform to the current year presentation.

Significant accounting policies are as follows:

Consolidation

The consolidated financial statements include the accounts of CIFG Holding, CIFG Guaranty, CIFG Europe, CIFG Services, CIFG NA and certain VIEs for which the Company is the primary beneficiary. All inter-company balances have been eliminated.

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Investments

The Company's investment portfolio is accounted for on a trade-date basis. Investments in fixed income securities that are considered AFS are carried at fair value, with unrealized gains and losses, net of deferred taxes, reflected in OCI. Fair value is based on quotes obtained from independent market sources. Unrealized gains and losses are calculated using amortized cost as the basis. AFS investments denominated in currencies other than euros are accounted for at their euro equivalent using exchange rates in effect at the balance sheet date. Unrealized foreign exchange gains or losses on AFS, net of deferred taxes, are recorded in OCI. Short-term investments are carried at cost, which approximates fair value.

For purposes of computing amortized cost, premiums and discounts are accounted for using the effective yield method over the remaining terms of securities acquired. For bonds purchased at a premium that do not have call features, such premiums are amortized over the remaining terms of the securities. Premium and discounts on mortgage-backed and asset-backed securities are adjusted for the effects of actual and anticipated prepayments.

The Company's process for identifying declines in the fair value of investments that are other than temporary involves consideration of multiple factors. These factors include current economic conditions, market prices, issuer-specific developments, the time period during which there has been a significant decline in value and the Company's intent and ability to hold the investment for a sufficient period of time for the value to recover. If the Company's analysis of these factors results in the determination that the decline is other-than temporary, the Company writes down the carrying value of the investment to fair value and records a realized loss. As of December 31, 2006, 2005 and 2004, there were no declines in fair value deemed to be other than temporary.

Realized gains and losses on the sale of investments are determined on the basis of first in, first out ("FIFO"). Investment income is recorded when earned.

Deferred Acquisition Costs

Certain costs incurred, primarily related to and varying with the production of new financial guaranty business, excluding financial guaranty contracts accounted for as derivatives, have been deferred. These costs include direct and indirect expenses related to underwriting and contract origination expenses, rating agency fees and premium taxes.

The Company receives ceding commissions under the ceded reinsurance contracts as compensation for acquisition costs incurred. Ceding commissions are deferred and offset against deferred acquisition costs (DAC). The Company considers deferred premium revenue and the present value of future premiums due to the Company under installment contracts when determining the recoverability of DAC. DAC and deferred ceding commissions, net, are amortized into the income statement over the periods in proportion to the earnings of the related premiums. DAC is presented in the balance sheet net of deferred ceding commissions.

Premium Revenue Recognition

Premiums received at the inception of the policy, or otherwise "up-front" premiums, are earned pro-rata over the duration of the underlying risk in proportion to the amount of risk outstanding over the expected period of coverage. The amount of risk outstanding is equal to the sum of the par amount of the debt insured. Installment premiums written are recognized on a straight-line

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basis over each installment period. If a guaranteed issue is retired early, the remaining deferred premium will be earned and any related unamortized DAC will be expensed immediately. Deferred premium revenue and prepaid reinsurance premiums represent the portion of gross and ceded premium written, respectively, which has been allocated to the unexpired underlying risk.

Losses and Loss Adjustment Expense Reserves

Loss and loss adjustment reserves are established for financial guaranty contracts subject to SFAS 60 – “Accounting and Reporting by Insurance Enterprises” (“FAS 60”). The reserve for losses and loss adjustment expenses consists of active credit reserves and case basis loss and loss adjustment expense reserves. The development of active credit reserves is based upon estimates of the expected levels of debt service payment defaults on currently guaranteed issues that are not presently or imminently in default, and by reference to financial guaranty industry historical loss experience. The determination of the reserve is primarily based on an analysis of expected losses as a percentage of expected premium on the outstanding insured portfolio, pursuant to which, active credit reserves are provided on a periodic basis as a function of regular financial guaranty premiums earned.

The Company monitors active credit reserves on an ongoing basis and adjusts these reserves based on actual loss experience, considering changes in the mix of business and economic conditions. Case basis loss reserves will be recorded when it is probable that a loss has been incurred and it can be reasonably estimated. When losses occur, case basis loss reserves will be established in an amount that is sufficient to cover the present value of the anticipated defaulted debt service payments over the expected period of default and estimated expenses associated with settling the claims, less estimated recoveries under salvage or subrogation rights. The active credit reserve is available to be applied against future case basis loss reserves and any related adjustments. As of December 31, 2006 and 2005, there were no case basis loss reserves recorded.

The Company’s loss reserving policy, described above, is based on guidance provided in FAS 60, FAS 5 - “Accounting for Contingencies” (“FAS 5”) and analogies to EITF 85-20 - “Recognition of Fees for Guaranteeing a Loan.” FAS 60 requires that, for short-duration contracts, a liability for unpaid claim costs relating to insurance contracts, including estimates of costs relating to incurred but not reported claims, be accrued when insured events occur. Additionally, FAS 5 requires that a loss be recognized where it is probable that one or more future events will occur confirming that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Management believes that the Company’s reserves are adequate to cover the ultimate cost of claims. However, because the reserves are based on management’s judgment and estimates, there can be no assurance that the ultimate liability will not exceed such estimates.

Income Taxes

CIFG Holding, CIFG Guaranty and CIFG Europe each file separate French tax returns, while CIFG Services and CIFG NA file a consolidated U.S. tax return. Current income taxes are calculated in accordance with the local income tax rules applicable to each entity within their respective jurisdiction.

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Deferred income taxes are provided with respect to the temporary differences between the tax bases of assets and liabilities and the reported amounts in the financial statements that will result in deductible or taxable amounts in future years when the reported amount of the asset or liability is recovered or settled. Such temporary differences relate principally to premium revenue recognition, deferred acquisition costs, loss reserves, net operating losses ("NOLs"), and unrealized appreciation or depreciation of investments. A valuation allowance is established, by taxing jurisdiction, when Management believes it is more likely than not (a likelihood of more than 50 percent) that some portion or the entire deferred tax asset will not be realized.

Reinsurance

In the normal course of business, the Company seeks to reduce its guaranteed exposure by reinsuring certain levels of risk with other insurance enterprises or reinsurers. Reinsurance premiums ceded and related commissions recorded are deferred and recognized in earnings on a pro-rata basis over the period the related financial guaranty coverage is provided. Deferred ceding commissions are netted against DAC.

Property and Equipment

Property and equipment consists of office furniture, fixtures, computer equipment, software and leasehold improvements which are reported at cost less accumulated depreciation. Office furniture and fixtures are depreciated straight-line over seven years. Leasehold improvements are amortized over their estimated service life or over the life of the lease, whichever is shorter. Computer equipment and software are depreciated over five years. Maintenance and repairs are charged to expense as incurred.

Rent Expense

Rent expense, net of lease incentives, is recognized on a straight-line basis over the lives of the leases.

Intangible Assets

Intangible assets have been established for the fair value of the insurance licenses acquired in prior years. The Company has determined that these licenses have an indefinite life and, therefore, are not being amortized. The recoverability of the carrying value of the intangible asset is evaluated at least annually based on a review of forecasted discounted cash flows and by referencing other available information. As of December 31, 2006 and 2005 there were no adjustments to the carrying value of the intangible asset.

Derivative Contracts

The Company has issued insurance policies that do not qualify for the financial guaranty scope exception under FAS 133 and 149. These contracts are recorded at fair value which is determined using models developed by the Company. The models include various assumptions such as an expected loss projection. The valuation results from these models could differ materially from amounts that might actually be realized in the market.

The Company believes that the most meaningful income statement presentation of derivative revenues is to reflect them as premiums written when installments are received, as premiums earned over the installment period, with changes in fair value recorded as net unrealized gains (losses) on derivatives. Derivative contracts are recorded on a gross basis in the balance sheet.

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Variable Interest Entities (VIE's)

From time to time, the Company guarantees payment obligations of counterparties, including VIEs that may enter into credit default swaps ("CDS") with third parties. The Company provides financial guarantees covering certain obligations of these entities at market rates and consolidates those VIEs when it is determined to be the primary beneficiary.

Foreign Currency

Functional currencies are generally the currencies of the local operating environment. The only subsidiaries within the consolidated group with a functional currency other than euros are CIFG Services and CIFG NA, whose functional currency is the U.S. dollar. The consolidated CIFG Guaranty financial statements include translation adjustments for the conversion of the CIFG Services and CIFG NA balance sheets from U.S. dollars to euros at exchange rates in effect at the balance sheet dates, with the income statement accounts translated using daily exchange rates averaged on a year-to-date basis. The related translation adjustments are included as a component of OCI in accordance with FAS 52.

Foreign currency transaction gains and losses arising from the re-valuation of assets (except for AFS investments) and liabilities denominated in non-functional currencies are reflected in net income.

Incentive Stock Plans

Certain employees of CIFG Services and CIFG Europe participate in incentive stock plans of CIFG Holding that provide for stock-based compensation, including stock options and restricted stock awards. Both stock options and restricted stock are granted for a fixed number of shares with an exercise price equal to the fair value of the shares at the grant date. The Company accounts for these incentive stock plans in accordance with the fair-value method prescribed by FAS No. 123, "Accounting for Stock-Based Compensation," ("FAS 123") as amended by FAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," ("FAS 148"). As prescribed under FAS 123, the compensation expense for options granted to employees is based on the minimum value of the option at the grant date, which is determined using an option-pricing model.

The Company adopted FAS 123 (R) on January 1, 2006. SFAS 123 (R) requires the Company to expense the fair value of employee stock options and other forms of stock-based compensation. In addition, SFAS 123 (R) classifies share-based payment awards as liability awards, which are re-measured at fair value at each balance sheet date, or equity awards, which are measured on the grant date and not subsequently re-measured. The Company has classified its 2006 award as a liability award; the awards from 2005 and prior are classified as equity awards.

For liability awards, the Company currently re-measures these awards at each balance sheet date. In addition, SFAS 123 (R) requires the use of a forfeiture estimate and a volatility assumption for estimating the stock option's value. The Company uses historical employee termination information to estimate the forfeiture rate and an average industry volatility factor is applied to current stock-based awards to determine the stock option's value.

Incentive grants awarded subsequent to January 1, 2006 are accounted for by using the fair-value-based method that will include an expected volatility assumption. The Company used a

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zero volatility assumption (minimum value method) when pricing incentive awards granted before 2006 because those awards are grand-fathered under the pronouncement.

Compensation expense is recognized in earnings ratably over the requisite service period in which the options vest.

In accordance with FAS 123 and FAS 123R, the compensation expense related to the stock option and restricted stock plans have been “pushed down” to the subsidiaries which employ the beneficiaries of the plan.

Other Long-term Compensation

Certain employees of CIFG Services and CIFG Europe participate in the Performance Unit Plan (“PUP Plan”). The PUP Plan provides for long-term incentive awards to employees, and the amount payable is adjusted upward or downward depending on the cumulative three-year pre-tax income of the CIFG Group as compared to a baseline target. At the end of the three-year performance period, the sum of the income before income taxes, is divided by the target amount and multiplied by an interest factor, resulting in a final unit value, which is subject to a cap and a floor, as defined in the PUP Plan. Vesting of PUPs is over a three-year period following the grant date. Cash payments are made at the end of each three-year measurement period, with the first payout scheduled for 2007. The compensation expense relating to this plan is recognized in earnings ratably over the vesting period.

The PUP Plan compensation expense incurred is reflected in the financial statements of the respective subsidiary which employs the beneficiaries.

Legal Reserve

The legal reserve is established by non-insurance entities for regulatory purposes in France. CIFG Guaranty is required to establish the legal reserve by taking 5% of French GAAP net income and reclassifying that amount from retained earnings into the legal reserve. The legal reserve cannot be used for shareholder distributions until it is equal to 10% of capital. As of December 31, 2006 the Company has not met the 10% threshold and is therefore ineligible to make a distribution to shareholders. Under U.S. GAAP the legal reserve is treated as appropriated retained earnings.

Recent Accounting Developments

In February 2006, the Financial Accounting Standards Board (the “FASB”) issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments” (“FAS 155”), which amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging” (“FAS 133”) and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities”. FAS 155 permits an election for hybrid instruments that contain an embedded derivative that otherwise would require bifurcation to irrevocably be accounted for at fair value, with changes in fair value recognized in the statement of operations and comprehensive income. The fair value election may be applied on an instrument-by-instrument basis. FAS 155 also eliminates a restriction on qualifying special purpose entities from holding passive derivative instruments. FAS 155 is effective for all financial instruments acquired or issued after December 15, 2006.

The FASB’s Derivative Implementation Group (“DIG”) issued DIG Issue B40 – “Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial

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Assets” (“DIG B40”) in December 2006. DIG B40 provides a scope exception on performing embedded derivative tests required under FAS 133 related to rate of returns for certain securitized interests. DIG B40 is required to be applied upon adoption of FAS 155. The Company is in the process of evaluating the impact of FAS 155 and DIG B40 on its financial statements.

In June 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes”, and interpretation of SFAS No. 109, “Accounting for Income Taxes” (“FAS 109”). FIN 48 requires that the Company determine whether a tax position is more likely than not to be sustained under examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position does not meet the more likely than not threshold, the benefit is not recognized in the financial statements. If the Company determines that a position meets the recognition threshold, the position is measured to determine the amount of the benefit that may be recognized in the financial statements based on criteria set forth in the pronouncement. FIN 48 also provides guidance on de-recognition, classification of interest and penalties, accounting in interim periods and disclosure. FIN 48 is applicable for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the impact of FIN 48 on its financial statements.

The FASB issued SFAS No. 157, “Fair Value Measurement” (“FAS 157”) in September 2006. This pronouncement defines fair value, establishes a framework for measuring fair value and enhances the footnote disclosures pertaining to fair value. Fair values are evaluated using a hierarchy (Levels 1, 2, & 3), which is based on the type of inputs used for the valuation. The input levels range from quotable market prices to unobservable inputs such as an entity’s own internal data. The disclosure requirements vary amongst the fair value hierarchy levels. FAS 157 is applicable to financial statements issued for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. The Company is in the process of evaluating the impact of FAS 157 on its financial statements.

On February 15, 2007 the FASB issued SFAS No. 159 - “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB No. 115” (“FAS 159”), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of this pronouncement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. FAS 159 is applicable for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact of FAS 159 on its financial statements.

Due to the diversity of accounting practices in the financial guaranty industry, the FASB undertook a project in 2005 to consider the accounting model for financial guaranty insurers. An exposure draft is expected in 2007. The current accounting model used by the Company may change significantly. Until the FASB issues specific guidance, the Company intends to continue to apply its existing accounting policies. It is not possible to predict the impact that the FASB’s project may have on the Company’s accounting practices.

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4. Related Party Transactions

Debt Facility

Effective December 20, 2004, CIFG Holding obtained a \$200 (€152.2) million committed debt facility with CNCE. The aggregate drawn under this facility is \$98.5 (€74.9) million, leaving \$101.5 (€77.2) million available for future draws. The majority of the loan proceeds were contributed to CIFG Guaranty as additional equity capital, and \$1 million (€800 thousand) was held at CIFG Holding for general corporate purposes.

As of December 31, 2006, the remaining facility of \$101.5 (€77.2) million is available for future draws on an irrevocable and unconditional basis, so long as CIFG Holding is not in default on any prior draws. The minimum draw that can be made is \$5 (€3.8) million. This debt facility expires on December 31, 2010. The commitment fee paid for this debt facility in 2006 was €164 thousand.

Service Agreement

CIFG Services has entered into an agreement with IXIS Capital Markets ("ICM") whereby ICM provides certain consulting services to the Company. Expenses incurred under this agreement were €548 thousand, €637 thousand, and €1.1 million for the years ending 2006, 2005, and 2004, respectively. As of December 31, 2006 and 2005 amounts due to ICM under this agreement were €137 and €141 thousand, respectively.

Facultative Reinsurance Agreements

CIFG Guaranty participates in a Master Facultative Reinsurance Agreement ("Agreement") with CIFG NA. Under the terms of this Agreement, CIFG Guaranty has the option to reinsure up to 90% of CIFG NA's acceptable risks. CIFG Guaranty pays a ceding commission on premiums ceded under the terms of this Agreement. Premiums ceded by CIFG NA and assumed by CIFG Guaranty under this facultative reinsurance agreement were €64.0, €70.9, and €35.7 million for 2006, 2005 and 2004, respectively. These amounts are eliminated in consolidation.

As of December 31, 2006 and 2005, CIFG Guaranty pledged to CIFG NA U.S. dollar denominated investments with a fair value of \$273.0 (€207.7) and \$168.2 (€142.1) million respectively, to support its reinsurance obligations in accordance with New York State Insurance regulatory requirements. The assets pledged are maintained in a secured trust on behalf of CIFG NA, for its sole use and benefit in accordance with New York State insurance regulation 11NYCRR 126.

CIFG Guaranty participates in a facultative reinsurance agreement with CIFG Europe. Under the terms of this Agreement, CIFG Guaranty has the option to reinsure up to 100% of CIFG Europe's acceptable risks. CIFG Guaranty pays a ceding commission on premiums ceded under the terms of this Agreement. CIFG Guaranty retains the right to reject any risk offered by CIFG Europe. Premiums ceded by CIFG Europe and assumed by CIFG Guaranty under this facultative reinsurance agreement were €3.0, €2.7, and €2.5 million for 2006, 2005 and 2004, respectively. These balances are eliminated in consolidation.

Excess of Loss Reinsurance Agreement

CIFG Guaranty entered into an excess of loss reinsurance agreement with CIFG Europe. This agreement covers losses of CIFG Europe in excess of €20 million. Premiums ceded by CIFG

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Europe and assumed by CIFG Guaranty during 2006, 2005 and 2004 were €3.5, €1.7, and €1 million, respectively. These balances are eliminated in consolidation.

Financial Guarantees

In the normal course of business, CIFG Europe and CIFG NA enter into certain financial guaranty contracts with affiliates on terms that Management believes are on an arms-length basis. The affiliates involved are Credit Foncier (“Foncier”), IXIS Corporate & Investment Bank (“IXIS CIB”), and CNCE. Gross premiums written on policies closed with CNCE during 2006 were €245 thousand. Gross premiums written on policies closed with IXIS CIB during 2006, 2005 and 2004 were approximately €9.0, €1.9, and €2.3 million, respectively. Gross premiums written on policies closed with Foncier during 2006, 2005 and 2004 were approximately €9.6, €9.8, and €3.4 million, respectively.

Capital Maintenance Agreements

CIFG Guaranty has entered into separate irrevocable keep-well capital maintenance agreements with CIFG NA and CIFG Europe. These separate agreements require CIFG Guaranty to contribute capital to CIFG NA and CIFG Europe if at any time, the separate company capital of CIFG NA and CIFG Europe fall below \$80 million and €20 million, respectively.

5. Deferred Acquisition Costs

Acquisition costs and ceding commissions that vary with and directly related to the production of business are deferred and amortized in proportion to the related premium revenue to be recognized in future periods. Deferred acquisition costs net of ceding commissions and related amortization are as follows:

	December 31,	
	2006	2005
Net DAC balance, beginning of period	€ 41,235	€ 24,555
Current year costs:		
Deferred acquisition costs	19,046	17,896
Amortization during the period	(9,641)	(5,071)
Foreign exchange	(3,327)	(3,855)
Net DAC balance, end of period	<u>€ 47,313</u>	<u>€ 41,235</u>

During 2006 the Company conducted its annual DAC study, which encompassed both a review of deferrable costs and the amortization pattern of DAC and deferred ceding commissions. In addition, the Company enhanced its policy systems in 2006, allowing it to update its exposure database with more current information received from external sources. These modifications resulted in a change in accounting estimate for DAC. Approximately €3.2 million is included in the “amortization of deferred acquisition costs” as a charge to the income statement.

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6. Investments

The Company's investment objective is to optimize after-tax returns while emphasizing the preservation of capital through the maintenance of high-quality investments with adequate liquidity. The weighted-average credit quality of the fixed income portfolio, which excludes short-term investments, was AAA with no investment rated below BBB as rated by S&P. There are no bonds owned which have been guaranteed by CIFG entities.

Short-term investments consist of United States government obligations (62.6%), certificates of deposit (.4%) and money market instruments (37%). Approximately 15.3% of these money market instruments are invested in Société d'Investissement à Capital ("SICAV"), money market funds registered in France. These funds invest principally in French Treasury bonds, other negotiable debt securities, short term bonds and commercial paper. These funds hold investments that have an average life of three months or less.

The following tables set forth the amortized cost and fair value of the fixed income securities and short-term investments included in the consolidated investment portfolio of the Company:

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Non-U.S.*	€ 321,313	€ 98	€ (13,024)	€ 308,387
United States government obligations	259,897	243	(8,055)	252,085
State and municipal obligations	18,302	---	(1,021)	17,281
Corporate obligations	34,681	46	(1,041)	33,686
Short-term investments	83,242	---	---	83,242
Total	<u>€ 717,435</u>	<u>€ 387</u>	<u>€ (23,141)</u>	<u>€ 694,681</u>

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Non-U.S.*	€ 304,579	€ 472	€ (3,587)	€ 301,464
United States government obligations	260,498	9,391	(1,274)	268,615
State and municipal obligations	22,464	103	(223)	22,344
Corporate Obligations	3,500	4	---	3,504
Short-term investments	58,603	--	---	58,603
Total	<u>€ 649,644</u>	<u>€ 9,970</u>	<u>€ (5,084)</u>	<u>€ 654,530</u>

* Principally Euro denominated debt securities issued by European governments and European municipalities.

Fixed income investments carried at fair value of approximately €6.9 and €7.8 million as of December 31, 2006 and 2005, respectively, were on deposit with various regulatory authorities to comply with insurance laws.

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The Company maintains a substantial portion of its cash and investments in two financial institutions that the Company considers of high quality; one of the financial institutions is an affiliate.

The following table sets forth the distribution by contractual maturity of the fixed income investments at amortized cost and fair value at December 31, 2006 and 2005. Actual maturity may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	December 31,			
	2006		2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	€ 118,983	€ 118,317	€ 101,381	€ 101,399
Due after one year through five years	376,313	363,778	319,825	326,897
Due after five years through ten years	183,719	175,261	224,280	222,175
After 10 years	38,420	37,325	4,158	4,059
Total	<u>€ 717,435</u>	<u>€ 694,681</u>	<u>€ 649,644</u>	<u>€ 654,530</u>

The following table presents the consolidated investment portfolio's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2006 and 2005:

	December 31, 2006					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Non U.S. Obligations*	€ 33,290	€ (1,268)	€ 274,831	€ (11,756)	€ 308,122	€ (13,024)
United States Government obligations	32,979	(1,731)	58,263	(668)	91,241	(2,399)
US Agencies	107,277	(2,397)	50,652	(3,259)	157,929	(5,656)
Corporate Obligations	30,100	(1,041)	0	0	30,100	(1,041)
State and municipal obligations	1,023	(8)	20,130	(1,013)	21,153	(1,021)
Total	<u>€204,669</u>	<u>€ (6,445)</u>	<u>€ 403,876</u>	<u>€ (16,695)</u>	<u>€ 608,545</u>	<u>€ (23,141)</u>

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	December 31, 2005					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Non U.S. Obligations*	€ 288,653	€ (3,587)	€ ---	€ ---	€ 288,653	€ (3,587)
United States Government obligations	85,144	(891)	38,567	(383)	123,711	(1,274)
State and municipal obligations	12,670	(223)	---	---	12,670	(223)
Total	€ 386,467	€ (4,701)	€ 38,567	€ (383)	€ 425,034	€ (5,084)

* Principally Euro denominated debt securities issued by European governments and European municipalities.

As of December 31, 2006 and 2005, there were 57 and 12 securities, respectively, that were in an unrealized loss position for a continuous 12-month period or longer. The unrealized losses in the Company's investment portfolio were caused by increases in interest rates and changes in foreign currency rates. The Company evaluated the credit rating of these securities and noted no significant deterioration. Since the decline in market value is related to changes in interest rates and exchange rates, not credit quality, and the Company has the intent and ability to hold these investments until the value recovers, the Company does not consider these investments to be other than temporarily impaired as of December 31, 2006 and 2005.

Net investment income was comprised of the following:

	December 31,		
	2006	2005	2004
Fixed income securities	€ 20,216	€ 13,686	€ 2,201
Short-term investments	4,186	1,309	867
Investment income	24,402	14,995	3,068
Investment expenses	(211)	(176)	(130)
Net investment income	€ 24,191	€ 14,819	€ 2,938

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Net realized gains were comprised of the following:

	December 31,		
	2006	2005	2004
Gross gains:			
Fixed income securities	€ ---	€ ---	€ 8
Short-term investments	269	2,503	6,194
	<u>269</u>	<u>2,503</u>	<u>6,202</u>
Gross losses:			
Fixed income securities	(4)	(3)	---
Short-term investments	---	---	(2)
	<u>(4)</u>	<u>(3)</u>	<u>(2)</u>
Net realized gains	<u>€ 265</u>	<u>€ 2,500</u>	<u>€ 6,200</u>

Gross gains recognized on short-term investments resulted from periodic sales of the SICAV investments.

Proceeds from the sale of long-term fixed income securities were €42 thousand, €6.9 million, and €2.8 million during the years ended December 31, 2006, 2005 and 2004, respectively.

7. Reinsurance

CIFG Guaranty utilizes reinsurance to effectively deploy its capital and to manage its risk profile. It remains liable to its ceding company subsidiaries to the extent that any reinsurance company fails to meet its obligations. CIFG Guaranty regularly monitors the financial condition of its reinsurers and believes there is no unrecoverable reinsurance.

The effect of reinsurance on premiums written and earned is as follows:

	December 31,		
	2006	2005	2004
Direct premium written	€ 116,890	€ 85,122	€ 48,402
Assumed premium written	2,276	7,916	8,116
Ceded premium written	<u>(1,452)</u>	<u>(1,385)</u>	<u>(1,399)</u>
Net premiums written	<u>117,714</u>	<u>91,653</u>	<u>55,119</u>
Change in direct deferred premium revenue	(64,528)	(53,125)	(27,350)
Change in assumed deferred premium revenue	2,668	(1,756)	(2,559)
Change in ceded deferred premium revenue	620	1,059	1,169
Change in deferred premium revenue, net	<u>(61,240)</u>	<u>(53,822)</u>	<u>(28,740)</u>
Net premiums earned	<u>€ 56,474</u>	<u>€ 37,831</u>	<u>€ 26,379</u>

In 2006, 2005, and 2004 there are no refunded earned amounts.

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8. Income Taxes

Effective 2006, CIFG Holding, CIFG Guaranty and CIFG Europe are no longer part of the CNCE French tax consolidation. These companies calculate their income taxes on a “stand-alone” basis and file separate company tax returns in France. Prior to 2006, a tax sharing agreement with CNCE stipulated that tax losses of any individual CIFG subsidiary that are utilized by CNCE and the tax benefits derived therefrom are not reimbursed to the subsidiary. The agreement also provides that, in the event that a CIFG Group company leaves the CNCE tax consolidation group, it may be reimbursed for the benefit of any tax losses previously utilized by the CNCE Group.

CIFG Services and CIFG NA file a consolidated U.S. federal income tax return.

The consolidated current provision for income taxes was approximately €15.8 million, € (409) thousand, and €871 thousand for the periods ending December 31, 2006, 2005 and 2004, respectively.

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year that the differences are expected to reverse. The effect on tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has established valuation allowances of €8.1 and €12.8 million for 2006 and 2005, respectively. The valuation allowances relate to deferred tax assets arising from NOLs generated during prior years and for other deferred tax assets generated by certain subsidiaries that have not established enough of an earnings history to recognize such assets. In accordance with U.S. GAAP, a valuation allowance has been recorded to reduce the recognition of net deferred tax assets of these subsidiaries.

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The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2006 and 2005 are presented below:

	As of December 31,	
	2006	2005
Deferred tax assets:		
Net operating loss carry forward	€ 1,859	€ 8,645
Deferred premium revenue	---	172
Loss reserve	2,757	1,822
Compensation	2,801	2,208
Deferred ceding commission revenue, net	4,771	3,922
Unrealized losses on fixed income investments	6,350	2,586
Other	503	538
Less: valuation allowance	(8,050)	(12,790)
Total deferred tax assets	10,991	7,103
Deferred tax liabilities:		
Accretion of discount	129	101
Deferred acquisition costs	23,453	17,634
Deferred premium revenue	586	---
Other	1,163	---
Total deferred tax liabilities	25,331	17,735
Net deferred tax liabilities	€ 14,340	€ 10,632

In 2006, the CIFG Services U.S. consolidated tax group used approximately €6.5 million in net operating loss-carry forwards generated in prior years to offset taxable income in the current year. As of December 31, 2006, the Company's U.S. subsidiaries had NOL carry-forwards available to offset future taxable income of €4.9 million, of which €2.3 million will expire in 2023 and €2.6 million will expire in 2024.

As noted previously, CIFG Holding, CIFG Guaranty, and CIFG Europe are no longer part of the CNCE tax group. They are each stand-alone taxpayers. CNCE fully utilized CIFG Europe's prior year NOLs in their consolidated tax return; CIFG Europe may be reimbursed for the use of those NOLs. CIFG Guaranty and CIFG Europe have no NOLs as of December 31, 2006.

The Company's total tax provision differs from the amount that would be obtained by applying the tax rate to pre-tax book income, mainly due to the impact of disallowed expenses, the establishment of the valuation allowance for certain deferred tax assets and the effect of NOLs not being reimbursed by CNCE under the tax sharing agreement.

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9. Dividend Restrictions

As of December 31, 2006, 2005 and 2004 CIFG Guaranty did not declare or pay any dividends.

CIFG Guaranty has received from CIFG Holding and CNCE commitments that both CIFG Holding and CNCE will not initiate any transaction which would result in a significant reduction in CIFG Guaranty's net equity without having received prior confirmation from a major rating agency that such a reduction will not result in a downgrade of the financial strength rating of CIFG Guaranty.

Under New York State insurance law, CIFG NA may pay a dividend only from earned surplus subject to the maintenance of a minimum capital requirement. Any dividends declared or paid may not exceed, together with all other dividends declared or distributed by CIFG NA during the preceding twelve months, the lesser of (i) 10% of its policyholders' surplus shown on its last filed statement, or (ii) one hundred percent of adjusted net investment income (as defined under New York Insurance Law), for such 12-month period without prior approval of the Superintendent of the New York State Insurance Department (NYSID).

CIFG NA has not declared or paid any dividends since its inception, given that it has no earned surplus and is therefore ineligible to pay a dividend.

10. Insurance Regulatory Restrictions

The Company is subject to insurance regulatory requirements of the jurisdictions in which it is domiciled or licensed to conduct business. CIFG Europe is subject to compliance with the French insurance regulations (*Code des Assurances*). CIFG Guaranty, as a French reinsurance company, is subject to compliance with various aspects of the French insurance regulations. CIFG NA is subject to the insurance regulatory requirements of the State of New York and the other jurisdictions in which it is licensed to conduct business.

The French insurance regulators and the NYSID and certain other U.S. insurance regulatory authorities have various requirements relating to the maintenance of certain minimum statutory capital and surplus.

CIFG NA also prepares statutory financial statements in conformity with accounting practices prescribed or permitted by the NYSID. Prescribed statutory accounting principles include state laws, regulations and general administrative rules, as well as a variety of the National Association of Insurance Commissioners (NAIC) requirements. The NAIC Statements of Statutory Accounting Principles (SSAP's) have been adopted as a component of prescribed or permitted practices by the NYSID. Additionally, the NYSID has adopted certain prescribed practices that vary from those found in SSAP's. These differences have no impact on the net income and the determination of statutory surplus of CIFG NA.

CIFG NA is required to maintain a total of \$75 (€57.1) million in statutory capital and surplus. Statutory capital and surplus of CIFG NA was \$103.8 (€79.0) and \$108.6 (€82.6) million at December 31, 2006 and 2005, respectively. Statutory net loss for CIFG NA was \$(2.1) (€1.6) million, \$(2.5) (€2.1) million, \$(5.2) (€4.0) million for 2006, 2005 and 2004, respectively. Statutory capital and surplus differs from stockholder's equity determined under U.S. GAAP

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principally due to statutory accounting rules that treat loss reserves, premiums earned, policy acquisition costs, ceding commissions, and deferred income taxes differently.

The translation of U.S. dollars into euros in the preceding paragraph is presented solely for the convenience of the reader, using the observed exchange rate at December 31, 2006 of \$1.31435 to €1.00.

CIFG Europe has a minimum capital requirement of €800 thousand and had statutory net equity of €38.5 and €35.1 million at December 31, 2006 and 2005, respectively. Statutory net income for CIFG Europe was €3.4, €2.9, and €2.4 million at December 31, 2006, 2005 and 2004, respectively. CIFG Europe is also subject to compliance with the French insurance regulation's solvency requirement. French insurance regulation mandates insurance companies maintain a minimum net equity (net of non-admissible assets) at or above the solvency requirement calculated annually. Net equity, net of non-admissible assets, was €31.5, and €26.0 million; the solvency requirement calculated for CIFG Europe was €6.8, and €3.2 million at December 31, 2006 and 2005, respectively. The above requirements are not applicable to French reinsurance companies such as CIFG Guaranty.

11. Net Insurance in Force

The Company's financial guaranty policies issued by CIFG NA and CIFG Europe guaranty the scheduled payments of principal and interest on municipal and structured obligations. The net exposure retained on any risk is subject to formalized underwriting guidelines.

As of December 31, 2006, guarantees in force, net of cessions, had a range of legal maturities of approximately 1-89 years. However, the expected life of these transactions may vary substantially from the legal final maturities, and are influenced by actual performance, market conditions and business objectives of the issuers. The expected maturities of these policies are between 1-45 years, which are diversified among 1,564 outstanding policies.

The weighted-average expected life of the guaranteed portfolio based on par is 9.74 years.

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The distribution of gross and net par inforce by bond type is presented in the following table:

	2006		2005	
	Gross	Net	Gross	Net
Global Public Finance and Infrastructure				
State GO and Appropriation	€ 4,265,353	€ 4,265,353	€ 3,139,002	€ 3,139,002
City and County GO	3,026,376	3,014,969	1,001,931	989,268
Sovereign/ Sub Sovereign	1,970,463	1,659,892	1,468,583	1,252,265
Airports	1,229,201	1,229,201	1,297,838	1,297,838
State Tax Backed	1,155,284	1,155,284	999,329	999,329
HealthCare	1,134,546	1,134,546	743,703	743,703
Utility Systems	1,017,724	1,017,724	574,799	574,799
Higher Education	996,170	996,170	467,564	467,564
Toll Roads	889,333	889,333	878,935	878,935
Investor Owned Utilities	804,582	804,582	563,078	563,078
Project Finance	704,904	664,578	582,262	537,685
Transportation	617,429	617,429	672,687	672,687
Municipal Housing	569,595	569,595	150,171	150,171
Public Power	562,290	562,290	294,567	294,567
Special Revenue	552,031	552,031	206,858	206,858
Local Tax Backed	294,917	294,917	192,689	192,689
Other	8,239	8,239	---	---
Total	19,798,437	19,436,133	13,233,996	12,960,438
Global Structured Finance				
CDO High Yield	13,660,243	13,380,298	5,778,353	5,778,353
CDO Asset Backed	7,313,351	6,837,252	4,378,317	4,345,735
CDO Investment Grade	6,787,278	6,787,278	5,164,972	5,164,972
Commercial Mortgage Backed	2,708,260	2,667,100	1,325,577	1,284,417
Home Equity	2,475,466	2,475,466	2,120,337	2,120,337
Mortgage Backed	1,847,120	1,847,120	1,689,450	1,689,450
Student Loans	1,295,667	1,295,667	558,870	558,870
Commercial Asset Backed	613,356	613,356	520,729	520,729
Leases Assets	643,318	612,278	930,776	896,991
Other Consumer	350,000	350,000	126,695	126,695
Other	236,498	236,498	152,710	152,710
Transportation	100,000	100,000	---	---
Auto Loans	77,145	77,145	282,496	282,496
Credit Cards	76,843	76,843	85,307	85,307
Total	38,184,545	37,356,301	23,114,589	23,007,062
Grand Total	€ 57,982,982	€ 56,792,434	€ 36,348,585	€ 35,967,500

The Company limits its exposure to losses from writing financial guarantees through a formal credit approval process and by maintaining a surveillance function which monitors insured transactions. Additionally, the Company mitigates credit risk by underwriting investment grade transactions and maintaining collateral requirements on asset-backed obligations, as well as through reinsurance. As of December 31, 2006, there were no guaranteed transactions rated below investment grade.

Included in the table above is \$2.0 (€1.5) billion of direct net par exposure related to securitization transactions supported by sub-prime mortgage assets. As of December 31, 2006, all of this exposure has underlying ratings of triple-A by at least two rating agencies prior to the

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benefit of the financial guaranty provided by the Company, except for \$59 (€44.9) million, which was issued in 2004 and is rated in the A-minus rating category.

In addition, CIFG Guaranty has indirect exposure to sub-prime mortgage assets as a result of guarantees of \$7.8 (€5.9) billion of senior tranches of multi-sector collateralized debt obligations that include varying proportions of sub-prime mortgage assets in their collateral pools. As of December 31, 2006, all of this exposure has underlying ratings of triple-A by at least two rating agencies prior to the benefit of the financial guaranty provided by the Company.

Gross par written includes €190, and €849 million of assumed financial guaranty reinsurance for the years ended December 31, 2006 and 2005, respectively.

Gross par outstanding includes €3.0, and €5.3 billion of assumed financial guaranty reinsurance business at December 31, 2006 and 2005, respectively.

Gross and net par outstanding includes financial guaranty contracts treated as derivatives under FAS 133.

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The distribution of gross and net par in force by geographical location is presented in the following table:

	2006		% of Net	2005		% of Net
	Gross	Net		Gross	Net	
United States:						
New York	€ 2,944,826	€ 2,933,419	5.2%	€ 2,757,595	€ 2,744,933	7.6%
Illinois	1,365,992	1,365,992	2.4%	1,119,600	1,119,600	3.1%
Florida	1,170,304	1,170,304	2.1%	575,761	575,761	1.6%
Puerto Rico	1,041,101	1,041,101	1.8%	986,830	986,830	2.7%
New Jersey	950,588	950,588	1.7%	705,858	705,858	2.0%
California	801,965	801,965	1.4%	761,786	761,786	2.1%
Pennsylvania	776,456	776,456	1.4%	139,498	139,498	0.4%
Louisiana	731,521	731,521	1.3%	4,054	4,054	0.0%
Texas	669,607	669,607	1.2%	459,508	459,508	1.3%
Colorado	393,490	393,490	0.7%	337,788	337,788	0.9%
Other States	4,352,900	4,352,900	7.7%	1,942,949	1,942,948	5.4%
United States Diversified	22,875,686	22,368,547	39.4%	12,885,969	12,819,602	35.6%
Total United States	38,074,436	37,555,890	66.3%	22,677,196	22,598,166	62.8%
Non United States:						
Great Britain	2,838,609	2,838,609	5.0%	1,995,607	1,995,607	5.5%
Italy	1,800,364	1,489,793	2.6%	1,376,668	1,160,350	3.2%
France	959,085	917,925	1.6%	550,977	509,816	1.4%
Germany	418,651	418,651	0.7%	149,424	149,424	0.4%
Canada	314,920	274,594	0.5%	343,213	298,636	0.8%
Portugal	258,237	258,237	0.5%	285,596	285,596	0.8%
Australia	250,655	250,655	0.4%	260,789	260,789	0.7%
Greece	250,000	250,000	0.4%	250,000	250,000	0.7%
Brazil	241,077	241,077	0.4%	267,630	267,630	0.7%
Turkey	228,250	228,250	0.4%	253,389	253,389	0.7%
Switzerland	186,761	186,761	0.3%	46,565	46,565	0.1%
Other Country Specific	186,616	186,616	0.3%	2,640	2,640	0.0%
Europe Diversified	4,860,518	4,680,547	8.2%	2,809,449	2,809,450	7.8%
Total Non United States	12,793,743	12,221,715	21.3%	8,591,947	8,289,892	23.1%
Global	7,114,803	7,014,829	12.4%	5,079,442	5,079,442	14.1%
Total	19,908,546	19,236,544	33.7%	13,671,389	13,369,334	37.2%
Grand Total	€57,982,982	€56,792,434	100%	€36,348,585	€35,967,500	100.0%

* Includes financial guarantees with obligations in multiple states

** Includes financial guarantees with obligations in multiple countries

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12. Loss and Loss Adjustment Reserves

The Company's reserve for losses and loss adjustment expenses consists of active credit reserves and case basis reserves. There were no case basis reserves recorded during 2006 and 2005. Activity in the loss and loss adjustment reserves, gross of reinsurance, are summarized as follows:

	As of December, 31			
	2006		2005	
Active Credit Reserves:				
Balance, beginning of period	€	3,412	€	1,966
Incurring losses and loss adjustment expenses		2,275		1,607
Foreign Exchange		251		(161)
Balance, end of period	€	5,938	€	3,412

Loss and loss adjustment expenses in the income statement are presented net of ceded amounts of €21, €28, and €34 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

13. Fair Value of Financial Instruments

The following fair value amounts were determined by using independent market information when available, and appropriate valuation methodologies when market quotes were not available. In cases where specific market quotes were unavailable, interpreting market data and estimating market values required considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Fixed income securities: The fair values of fixed income securities are based primarily on quoted market prices.

Short-Term Investments and Cash: The carrying amount of these items approximate fair value.

Investment Income Due and Accrued: The fair value of investment income due and accrued is assumed to approximate carrying value due to the length of time to maturity.

Installment Premiums:

Certain other financial guaranty contracts have been written on an installment premium basis, where the future premiums to be received by the Company are determined based on the outstanding exposure at the time the premiums are due. The fair value of the Company's future premium revenue under its installment contracts is measured using the present value of estimated future installment premiums, less an estimated ceding commission thereon,

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discounted at 7%. The estimate of the amounts and timing of the future installment premiums is based on contractual premium rates, debt service schedules and expected run-off scenarios. This measure is used as an estimate of the cost to reinsure the CIFG Group's exposures under these policies.

Long-Term Debt: The carrying value of long-term debt is presumed to approximate fair value.

The carrying amount and estimated fair value of financial instruments are presented below:

In Euros	December 31,			
	2006		2005	
	<u>Carrying Amount</u>	<u>Estimated fair value</u>	<u>Carrying Amount</u>	<u>Estimated fair value</u>
Financial Assets:				
Fixed income securities	€ 611,439	€ 611,439	€ 595,927	€ 595,927
Short-term investments	83,242	83,242	58,603	58,603
Cash	8,907	8,907	9,656	9,656
Investment income due and accrued	12,316	12,316	11,350	11,350
Derivative assets	749	749	125	125
Financial Liabilities:				
Derivative liabilities	€ 469	€ 469	€ 409	€ 409
Long-term debt	74,942	74,942	83,196	83,196
Off-balance sheet instruments:				
Installment premium receivable				
Gross	---	€ 157,582	----	€ 105,550
Net of reinsurance	---	154,960	----	104,642

14. Credit Derivatives

Certain financial guaranty contracts meet the definition of a derivative under FAS 133 as amended by FAS 149. All of these direct contracts provide credit protection to investors who have entered into credit derivative transactions with Mogador Trust and New Generation Funding Trusts. The Company records these contracts at Management's estimate of fair value based on internally developed valuation models. The models contain an expected loss assumption. These contracts are considered by the Company to be, in substance, financial guaranty contracts and the Company generally intends to hold them to maturity. The level of fair value adjustments is dependent upon a number of factors including changes in credit spreads and other market factors.

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As of December 31, 2006 and 2005, the distribution of par exposure by form of credit enhancement is set forth in the following table on a gross (direct and assumed) basis and net of reinsurance:

	December 31,			
	2006		2005	
	Gross	Net	Gross	Net
Financial guarantees	€ 23,408,929	€23,085,944	€ 16,066,375	€ 15,834,657
Credit derivatives	34,574,053	33,706,490	20,282,210	20,132,843
Total	<u>€ 57,982,982</u>	<u>€56,792,434</u>	<u>€ 36,348,585</u>	<u>€ 35,967,500</u>

15. Variable Interest Entities

The Company's financial statements include the consolidation of Mogador Trust and New Generation Funding Trusts (VIEs). For each of the three years ended December 31, 2006, 2005 and 2004, gross direct premium written by these VIEs were €40.9, €30.2, and €17.8 million, respectively, and at December 31, 2006 and 2005 gross par outstanding includes €39.0, and €20.3 billion respectively, underwritten through these VIEs.

16. Retirement Plan

CIFG Europe and its employees in France contribute to compulsory pension systems: Régime Général de la Sécurité Sociale and UCREPPSA. CIFG Europe has no additional liability due to pension commitments towards its employees, except for the retirement indemnity, payable at retirement date. The estimated liability for this retirement indemnity was €101, and €77 thousand at December 31, 2006 and 2005, respectively and is accrued on the consolidated balance sheet as of those dates.

Employees of CIFG Services participate in a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis up to \$15 (€11) thousand for those employees who are under 50. Employees who are 50 and older are allowed to make a "catch up" contribution of an additional \$5 (€4) thousand for 2006 under the current IRS code. CIFG Services may make discretionary contributions to the plan on behalf of employees. CIFG Services contributed \$480 (€366), €214, and €184 thousand to the plan on behalf of employees for the years ended December 31, 2006, 2005, and 2004, respectively.

17. Long-term Incentive Plans

The Compensation Committee of the Supervisory Board of CIFG Holding (the Compensation Committee) approved various long-term incentive ("LTI") plans designed to attract, retain, and motivate the Company's employees whose performance can impact the long term success of the CIFG Group. The long-term incentive plans include three components: a stock option component, restricted stock (including related tax units) and a performance unit plan ("PUP Plan"), which is linked to the pre-tax operating income of CIFG Holding. Awards under these LTI plans are granted at the discretion of the Compensation Committee.

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The compensation expense for the LTI plans (i.e. stock options, restricted stock, tax units and the PUP plan) are “pushed down” and thereby reflected in the financial statements of the respective CIFG Holding subsidiary which employs the beneficiaries.

Incentive Stock Plans

In 2006, 2005 and 2004, the Compensation Committee approved and adopted CIFG Holding’s 2003 Stock Option Plan (the “2003 Plan”), the 2003 Stock Option Program (the “2003 Program”), the 2004 Stock Option Plan, and the 2005 Stock Option Plan. Collectively, these stock option plans (“the Stock Option Plans”) enable employees of the Company’s subsidiaries to acquire “*certificats d’investissement*” (investment certificates) or preferred shares (determined by the plan year) to be issued by CIFG Holding, allowing them to benefit from appreciation in the value of the capital stock of CIFG Holding. The investment certificates and preferred shares carry all of the rights of a regular share of CIFG Holding’s stock, except for the voting rights. In the event of a public listing of CIFG Holding’s shares, the investment certificates will be re-combined with the voting rights and the preferred shares will be converted to ordinary shares and thus will have the same rights as ordinary shares.

Options granted under these plans have vesting schedules which provide for pro-rata annual vesting over periods ranging between zero and five years from the date of grant. The Stock Option Plans contain provisions for accelerated vesting under certain circumstances including a change of control as defined in the plan documents. In 2006, there was a change in control as discussed in Note 1. The effect of this change in control resulted in the accelerated vesting of 2.8 million stock options from the 2003 Plan and Program.

The exercise prices of options granted under these Stock Option Plans were established using 100% of the fair market value of CIFG Holding’s capital stock on the date granted. Fair market value was determined by applying a valuation methodology which was approved by the Compensation Committee. The valuation methodology considers the book value of CIFG Holding plus the value of the in-force portfolio of guaranteed risks, including a cost of capital component. Using this valuation methodology, the exercise price for the options granted in 2006, 2005 and 2004 was established at €10.65, €10.47 and €9.29, respectively. Absent a change of control, options are exercisable as specified at the time of grant, are generally not exercisable prior to the fourth anniversary of the date of grant, and expire ten years from the date of grant (or shorter if specified or following termination of employment).

The Compensation Committee authorized 71,365, 416,138 and 3,107,286 shares of CIFG Holding’s capital stock for 2006, 2005 and 2004, respectively, to be granted as options under these Stock Option Plans. As required under French law, the Stock Option Plans contain an anti-dilution feature which protects the interests of the beneficiaries. As a result of the issuance of restricted stock during 2006 and 2005, additional options of 11,903 and 12,597 options were granted and the strike prices for the 2004 and 2003 plans were reset to €10.43 and €9.22 pursuant to the anti-dilution provisions under these plans.

As of December 31, 2006, 2005 and 2004, the number of stock options forfeited was 343,094, 146,022 and 96,293, respectively.

For awards granted prior to December 31, 2005 the option valuation methodology reflects “minimum value”, as defined by FAS 123 as it excludes volatility from estimating the option’s

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value. Awards granted in 2006 include a volatility assumption as prescribed by FAS 123 (R). Under the method of accounting adopted by the Company under the provisions of FAS 123 and FAS 123 (R), employee stock option compensation expense for the years ended December 31, 2006, 2005, and 2004 was €2.0, €1.5, and €2.9 million, respectively. The unrecognized compensation cost related to non-vested stock options as of December 31, 2006 is approximately €543 thousand. The cost is expected to be recognized over a weighted average period of 2.0 years.

The Stock Option Plans contain a liquidity put option feature, providing beneficiaries with the option to receive cash equal to the difference between the strike price and fair market value of the stock. Prior to a public offering of the shares of CIFG Holding, this liquidity put option feature requires CIFG Holding to repurchase any investment certificates or preferred shares acquired upon exercise of the stock option which are presented by employees after the requisite services have been completed and any other conditions necessary to earn the right to benefit from these instruments have been met. The price to be paid by CIFG Holding for these investment certificates or preferred shares upon the exercise of the liquidity put option by the employee shall be equal to the fair market value in effect at the time the Company receives notice from the employee. The fair market value will be calculated on a fully-diluted basis using the same valuation methodology approved by the Compensation Committee to set the exercise price at the time of grant. As of December 31, 2006, 2.8 million stock options were vested and exercisable. However, no stock options have been exercised and no shares have been "put" to the Company to date. The liquidity put option terminates upon a public listing of CIFG Holding.

Using the above referenced valuation methodology applied to the number of vested stock options as of December 31, 2006 and 2005, assuming these vested options were exercised and the liquidity put option was also exercised, the amounts which would be payable as of December 31, 2006 and 2005 are €6.0 and €2.4 million, respectively.

In the event that beneficiaries elect to exercise their stock options and hold the investment certificates or preferred shares acquired, CIFG Holding has a right to repurchase these investment certificates or preferred shares at the value determined using the same valuation methodology approved by the Compensation Committee to set the exercise price at time the options were granted.

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To compute the compensation expense, the value for these options was estimated at the date of the grant using CIFG Holding's option valuation methodology (minimum value under FAS 123). The number of options granted and the assumptions used for valuing such option grants during the year are shown in the following table:

	December 31		
	2006	2005	2005
Number of options granted	59,462	401,980	3,107,285
Exercise price	€ 10.65	€ 10.47	€ 9.29
Dividend yield	---	---	---
Expected Volatility	27.91%	n/a	n/a
Risk-free interest rate	3.81%	3.104%	3.939%
Expected option term (in years)	6	6	6.7

A summary of the CIFG Holding's stock option plans as of December 31, 2006, 2005 and 2004, and changes during the year, are set forth in the following table:

	2006		2005		2004	
	Number of Shares	Weighted Avg. Price per share	Number of Shares	Weighted Avg. Price per share	Number of Shares	Weighted Avg. Price per share
<u>Options</u>						
Outstanding at the beginning of the year	3,279,548	€ 9.37	3,010,992	€ 9.29	---	---
Granted	59,462	10.65	401,980	10.47	3,107,285	9.29
Anti-dilution adjustment	11,903	9.37	12,597	9.25	---	---
Exercised	---	---	---	---	---	---
Expired or canceled	100,780	9.73	146,021	9.27	96,293	9.29
Outstanding at the end of the year	3,250,133	€ 9.38	3,279,548	9.40	3,010,992	€ 9.29
Exercisable at the end of the year	2,830,123	---	---	---	---	---
Weighted-average value per share of options granted during the year		€ 2.17		€ 1.79*		€ 2.16*

* Minimum value as defined previously

The following table summarizes information about the Company's stock option plans as of December 31, 2006:

Range of Exercise Price	Number Outstanding	Weighted-average Contractual Life in Years	Weighted-Average Exercise Price of Outstanding Shares	Number Exercisable	Shares Vested as of Last Anniversary Date of the Grants	Weighted Average Price of Exercisable Shares
€ 9.25 - € 10.65	3,250,133	7.35	€ 9.38	2,830,123	3,000,716	€ 9.22

Restricted Stock

On December 20, 2006 and December 30, 2005, the Compensation Committee authorized the grant of 184,445 and 235,938 restricted shares, respectively, of CIFG Holding's common stock to certain employees of subsidiaries of CIFG Holding, with a fair value of €10.65 and €10.47 per

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share, respectively. These shares vest two years after the date of grant, and must be held for an additional two years before they can be sold.

U.S. employees eligible for restricted stock have the option to either take 100% of their restricted stock award in restricted stock or take 50% in restricted stock and 50% in tax units. The tax units are intended to provide cash to help employees meet their tax obligations arising from the vesting of the restricted stock. These tax units vest two years after the date of grant, similar to the restricted stock, and the unit price is equal to the fair value of the restricted stock at the time of grant. The tax units are earned ratably over the vesting period and liability accounting principles are applied.

The Restricted Stock Plans include a liquidity put option feature similar to that described above for the Stock Option Plan, allowing employees to put their shares to the Company and receive cash for the fair market value of the shares. There are certain restrictions on the liquidity put option feature.

	<u>2006</u>	<u>2005</u>
Restricted Stock awarded	184,445	212,725
Weighted average fair value per share	€ 10.65	€ 10.47
Gross Restricted Stock expense	995	---

Restricted stock awards were granted on December 30, 2005; as a result, a restricted stock expense was not recorded in 2005.

Unrecognized compensation cost related to non-vested restricted stock as of December 31, 2006 is approximately €2.9 million. The cost is expected to be recognized over a weighted-average period of 1.34 years.

Performance Unit Plan

The Compensation Committee approved the CIFG Holding PUP Plan in April, 2004. During 2006, 2005 and 2004, the Company incurred compensation expense of €862, €860 and €832 thousand related to this plan, respectively. Awards under the PUP are payable in cash.

18. Long-term Debt

On December 20, 2004, CIFG Holding entered into a \$ 200 million financing commitment with CNCE. On December 22, 2004, CIFG Holding drew down on that commitment by entering into a loan agreement with CNCE for \$90 (€68.4) million. In September 2005, in order to implement the remaining \$110 million commitment, the Company entered into a committed debt facility agreement with CNCE for an amount of \$110 million. On December 15, 2005, the Company drew \$8.5 (€6.5) million under this debt facility, increasing the total loans due to CNCE to \$98.5 (€74.9) million. The remaining unused committed debt facility as of December 31, 2006 and 2005 is \$101.5 (€77.2) million, with future draws available on an irrevocable and unconditional basis so long as the Company was not in default of any prior draws.

Current (and any future loans) under these facilities are for twenty-year terms from the date of the draw, are non-callable and carry a fixed rate of interest for the first five years, after which the

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loans are callable and at an adjustable rate of interest, and are non-amortizing. The final maturities of the existing \$90 million and \$8.5 million loans are December 20, 2024 and December 15, 2025, respectively. These loans are non-callable by the Company until December 20, 2009 and December 15, 2010, after which, the Company has the option to repay the loans, in whole or in part, in increments of no less than \$5 (€3.8) million.

The loans are senior unsecured obligations of CIFG Holding and are subordinate to the financial guaranty obligations of CIFG Guaranty, CIFG Europe and CIFG NA. In 2006 and 2005, interest expense incurred was \$4.6 (€3.5) and \$ 4.0 (€3.0) million, respectively, and interest expense accrued as of December 31, 2006 and 2005 was \$114 (€87.0) and \$115 (€87.5) thousand, respectively.

The carrying value of the Company's long-term debt was as follows:

	December 31,			
	2006		2005	
4.24% Loan, due 2024*	\$ 90,000	€ 68,475	\$ 90,000	€ 76,017
5.25% Loan, due 2025*	8,500	6,467	8,500	7,179
Less unamortized discount				
Plus unamortized premium				
Total Long-term debt	\$ 98,500	€ 74,942	\$ 98,500	€ 83,196

* Fixed for the first five years through December 20, 2009, and December 15, 2010, then variable indexed to six months U.S. dollar LIBOR plus a margin.

19. Commitments

Subsidiaries of CIFG Guaranty lease office space in London, New York and Paris. The operating leases in London and Paris have lease terminations in 2016 and 2015, respectively. The lease for the New York office space was renewed in December 2005, and expires in 2019. In addition to base rental costs, the leases for office space provide for rent escalations resulting from increased assessments for real estate taxes, utilities, maintenance, and reductions for lease incentives. The leases in London and Paris also include charges for services provided by the landlord such as cleaning, insurance, telephone charges, etc.

Rent expense is recognized on a straight-line basis over the terms of the respective operating leases, net of lease incentives. Deferred rent obligations carried on the balance sheet for lease incentives at December 31, 2006 are approximately €813 thousand. For the years ended December 31, 2006, 2005 and 2004 rent expense was €1.9, €1.4, and €1.3 million, respectively.

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Future minimum lease payments under the operating leases at December 31, 2006 are as follows:

Year Ending December 31,	Future Minimum Rent Payments	Future Minimum Service Charges	Total Future Minimum Lease Payments
2007	€ 1,709	€ 344	€ 2,053
2008	1,774	344	2,118
2009	1,774	344	2,118
2010	1,774	344	2,118
2011	1,838	344	2,182
Thereafter	12,421	1,362	13,783

Pursuant to the lease agreement for the space occupied by CIFG Services, a standby letter of credit has been provided for approximately €312 thousand. A certificate of deposit for a similar amount is held as collateral by the issuer of the letter of credit.