

COVER SHEET

**(Regulation 6 of the Insurance Returns
And Solvency Regulations 1980)**

STATUTORY FINANCIAL RETURN

of

CIFG Guaranty Ltd.
(hereinafter referred to as "Insurer")

for the period

from	<u>1st</u> day	<u>October</u> month	<u>2007</u> year
to	<u>31st</u> day	<u>December</u> month	<u>2007</u> year

PART A

STATUTORY DESCRIPTIONS

- (aa) Class of registration Class 3
- (ab) Conditions imposed under Section 4 of the Act:
- 1 The insurer shall, at all times in and during the course of each financial year it carries on insurance business, meet and maintain the relevant solvency margin(s), liquidity and other ratios applicable under Bermuda law
 - 2 The insurer shall not, without obtaining the prior written approval of the Bermuda Monetary Authority, write any "long-term business", as such expression is understood in the Act.
 - 3 The insurer shall not, without obtaining the prior written approval of the Bermuda Monetary Authority; write any business other than the business detailed in the business plan dated 27th August 2007.
- (ac) Particulars of any direction issued by the Authority under Section 56 of the Act:

Section 56

None

DESCRIPTION OF THE NATURE OF THE INSURER'S BUSINESS

- (1) Information regarding insurance business carried on: **Class 3**
- (i) General Business YES
- (ii) Long-term Business NO
- (iii) If a Composite, is the insurer a "Section 24(6) Composite"? N/A
- (iv) (a) Is the insurer a write of unrelated Risks? YES
 (b) If "Yes" to (A) above, is it a direct writer or as a reinsurer? As a Reinsurer

(i) The company is an insurer of financial guaranty risk. The classes of business written and amount of gross premium written with respect to each class is as follows:

<u>Class of Business</u>	<u>Gross Premium Written</u>		<u>Total</u>
	<u>Related</u>	<u>Unrelated</u>	
Financial Guaranty	<u>\$ 0</u>	<u>\$ 19,390,092</u>	<u>\$ 19,390,092</u>

(ii) Annual aggregate stop loss reinsurance is not in effect.

(A) Description of the currency used

The company's Statutory Financial Statements are expressed in U.S. Dollars. The Statutory Financial Return is expressed in U.S. Dollars, which is the currency required by Regulation 10(2) of the Insurance Accounts Regulations, 1980.

(B) Open Year Business Revenue Statement (O.Y.B.R.S.)

A Statutory O.Y.B.R.S. is not annexed to the company's Statutory Statement of Income.

BERMUDA
THE INSURANCE ACT 1978
(Act No:39 of 1978)
STATUTORY BALANCE SHEET (General Business)

Form 1
(Page 1)

CIFG Guaranty Ltd
(Name of Company)
As at
31st December 2007
Day Month Year
Expressed in
United States Dollars
Currency Used(Vide Reg10(2))

STMT LINE NO.	ASSETS	2007	2006
1.	CASH AND TIME DEPOSITS	12,251,218	
2.	QUOTED INVESTMENTS:		
	(a) Bonds & Debentures (Fair market value - \$2,166,908,000)	2,147,243,030	
	(b) Equities (Preferred & Ordinary)		
	(c) Other quoted Investments		
	(d) Total quoted Investments	2,147,243,030	-
3.	UNQUOTED INVESTMENTS:		
	(a) Bonds & Debentures		
	(b) Equities(Preferred & Ordinary)		
	(c) Total unquoted Investments	-	-
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES	18,691,484	
5.	INVESTMENT IN MORTGAGE LOANS ON REAL ESTATE		
	(a) First Liens		
	(b) Other than First Liens		
	(c) Total investment in mortgage loans on real estate	-	-
7.	REAL ESTATE:		
	(a) Occupied by the Company		
	(b) Other Properties (Less Encumbrances)		
	(c) Total real estate	-	-
8.	COLLATERAL LOANS		
9.	INVESTMENT INCOME DUE & ACCRUED	15,215,451	
10.	ACCOUNTS AND PREMIUMS RECEIVABLE	10,246,980	
11.	REINSURANCE BALANCES RECEIVABLE		
12.	FUNDS WITHHELD BY CEDING REINSURERS		
13.	SUNDRY ASSETS:		
	(a) Income Tax Receivable	7,529,274	
	(b)		
	(c)		
14.	LETTERS OF CREDIT & GUARANTEES AND OTHER INSTRUMENTS		
	(a)		
	(b)		
	(c)		
15.	TOTAL	2,211,177,437	-

BERMUDA
THE INSURANCE ACT 1978
(Act No:39 of 1978)
STATUTORY BALANCE SHEET (General Business)

Form 1
(Page 2)

CIFG Guaranty Ltd
(Name of Company)
As at
31st December 2007
Day Month Year
Expressed in
United States Dollars
Currency Used(Vide Reg10(2))

**GENERAL BUSINESS INSURANCE RESERVES, OTHER LIABILITIES AND
STATUTORY CAPITAL AND SURPLUS**

STMT LINE NO.	2007	2006
INSURANCE RESERVES		
16. UNEARNED PREMIUMS	205,489,705	
17. LOSS AND LOSS EXPENSES PROVISIONS	1,720,074,561	
18. OTHER INSURANCE RESERVES - GENERAL BUSINESS		
19. TOTAL GENERAL BUSINESS INSURANCE RESERVES	1,925,564,266	-
OTHER LIABILITIES		
28. INSURANCE AND REINSURANCE BALANCES PAYABLE	279,445	
29. COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		
30. LOANS AND NOTES PAYABLE		
31. (a) INCOME TAXES PAYABLE		
(b) DEFERRED INCOME TAXES	0	
32. AMOUNTS DUE TO AFFILIATES	23,759,754	
33. ACCOUNT PAYABLE AND ACCRUED LIABILITIES	1,077,295	
34. FUNDS WITHHELD UNDER REINSURANCE CONTRACTS		
35. DIVIDENDS PAYABLE		
36. SUNDRY LIABILITIES:		
(a)		
(b)		
(c)		
37. LETTERS OF CREDIT AND GUARANTEES AND OTHER INSTRUMENTS		
38. TOTAL OTHER LIABILITIES	25,116,494	-
39. TOTAL GENERAL BUSINESS INSURANCE RESERVES AND OTHER LIABILITIES	1,950,680,760	-
STATUTORY CAPITAL & SURPLUS		
40. TOTAL STATUTORY CAPITAL & SURPLUS	260,496,676	-
41. TOTAL	2,211,177,437	-

BERMUDA
THE INSURANCE ACT 1978
(Act No:39 of 1978)
STATUTORY STATEMENT OF INCOME (General Business)

Form 2

CIFG Guaranty Ltd
(Name of Company)
As at
31st December 2007
Day Month Year
Expressed in
United States Dollars
Currency Used(Vide Reg10(2))

STMT LINE NO.	2007	2006
UNDERWRITING INCOME		
1. GROSS PREMIUMS WRITTEN	19,390,092	
2. REINSURANCE PREMIUMS CEDED	(361,865)	
3. NET PREMIUMS WRITTEN	19,028,227	-
4. (INCREASE) DECREASE IN UNEARNED PREMIUMS	(1,222,121)	
5. NET EARNED PREMIUMS	17,806,106	-
6. OTHER INSURANCE INCOME		
7.	17,806,106	-
UNDERWRITING EXPENSES		
8. NET LOSS INCURRED AND NET LOSS EXPENSES INCURRED	1,715,693,897	
9. COMMISSIONS & BROKERAGE	5,410,513	
OTHER UNDERWRITING EXPENSES		
11. PERSONNEL COSTS	384,733	
12. OTHER	1,562,221	
13.	1,723,051,363	-
14. UNDERWRITING PROFIT(LOSS)	(1,705,245,257)	-
15. TRANSFERRED FROM(TO) OPEN YEAR BUSINESS REVENUE STATEMENT		
16. NET UNDERWRITING PROFIT(LOSS)	(1,705,245,257)	-
17. GENERAL BUSINESS INVESTMENT INCOME -NET	7,967,685	
18. INCOME BEFORE THE UNDERNOTED ITEMS	(1,697,277,572)	-
37. OTHER INCOME (DEDUCTIONS)	(197,543,250)	
38. INCOME BEFORE TAXES	(1,894,820,822)	-
39. INCOME TAXES:		
(a) Current		
(b) Deferred	0	
(c) Total	0	-
40. INCOME BEFORE REALISED GAINS (LOSSES)	(1,894,820,822)	-
41. REALISED GAINS (LOSSES)	(18,391,257)	
42. NET INCOME	(1,913,212,080)	-

BERMUDA
THE INSURANCE ACT 1978
(Act No:39 of 1978)
STATUTORY STATEMENT OF CAPITAL & SURPLUS

Form 8

CIFG Guaranty Ltd
(Name of Company)
As at
31st December 2007
Day Month Year
Expressed in
United States Dollars
Currency Used(Vide Reg10(2))

STMT LINE NO.	2007	2006
1. STATUTORY CAPITAL:		
(a) Capital Stock - authorised shares of par value xxx each issued and fully paid shares	871,130,175	
(b) Contributed Surplus	1,290,009,519	
(c) Any Other Fixed Capital	100,000,000	
TOTAL STATUTORY CAPITAL	<u>2,261,139,694</u>	<u>-</u>
2. STATUTORY SURPLUS:		
(a) Statutory Surplus -Beginning of Period	(113,350,808)	-
(b) Add/(Deduct): Income/(Loss) For Year	(1,913,212,080)	-
(c) Less: Dividends Paid & Payable		
(d) Add / (Deduct) Change in Unrealised appreciation (depreciation) of investments		
(e) Add/(Deduct) Change in Non-Admitted Assets	-	
(f) Add/(deduct) Change in Appraisal of Real Estate		
(g) Add/(Deduct) Change in any other statutory surplus	25,919,870	
(h) Statutory Surplus - End Of Year	<u>(2,000,643,017)</u>	<u>-</u>
3. TOTAL STATUTORY CAPITAL & SURPLUS	<u>260,496,676</u>	<u>-</u>

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part I

1. CIFG Guaranty Ltd., “The Company”, a Class 3 reinsurer of financial guaranty risk, is a wholly owned subsidiary of CIFG Holding Ltd., a Bermuda based holding company. On October 1, 2007 CIFG Holding changed its place of domicile from France to Bermuda and as part of the re-domiciliation, changed its name to CIFG Holding Ltd. From November 2006 and until January 2008, CIFG Holding Ltd. was a wholly-owned subsidiary of Natixis, a French société anonyme. In December of 2007, Banque Fédérale des Banques Populaires (BFBP) and Caisse Nationale des Caisses d’Epargne (CNCE) invested \$1.3 billion in equity capital in CIFG Holding Ltd. and its subsidiaries. As a result of this investment, both Banque Fédérale des Banques Populaires and Caisse Nationale des Caisses d’Epargne became the controlling shareholders of CIFG Holding Ltd. In the first quarter of 2008, the shares of CIFG Holding which were owned by Natixis were purchased by BFBP and CNCE. CIFG Guaranty Ltd. was established in France in 2001 as a French société anonyme. On October 1, 2007, CIFG Guaranty Ltd. was granted permission from the Bermuda Monetary Authority to re-domicile its operations and re-incorporate under the laws of the islands of Bermuda.

2. CIFG Guaranty Ltd. is a monoline reinsurer of risks engaged solely in financial guaranty reinsurance. CIFG Guaranty Ltd. reinsures a portion of the financial guaranty risks generated by CIFG Assurance North America, Inc. (CIFG NA) and CIFG Europe (CIFG EU), its two insurance subsidiaries, under reinsurance agreements. The reinsurance agreement with CIFG NA is a quota share arrangement whereby the Company has the option to reinsure up to 90% of the risk. The reinsurance arrangement between the Company and CIFG EU is on a facultative basis with the Company having the option to reinsure up to 100% of the risk. The agreement with CIFG EU is also covered by a € 20m excess of loss reinsurance agreement.

3. The accompanying statutory financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The statutory financial statements do not include any adjustments that might be necessary should The Company be unable to continue as a going concern. These financial statements have been prepared in accordance with accounting practices prescribed or permitted in Bermuda by the Insurance Act 1978 and Related Regulations. The financial statements do not and are not intended to be prepared in conformity with generally accepted accounting principles. The preparation of financial statements in accordance with statutory accounting principles requires management to makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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. The following are the significant accounting policies adopted by the Company.

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part I (continued)

4. Premium Revenue Recognition

Premiums received at the inception of the policy (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 basis over each installment period. If a guaranteed issue is retired early, the remaining deferred premium will be earned. Deferred premium revenue and prepaid reinsurance premiums, presented on a net basis as unearned premiums on the statutory balance sheet represent the portion of gross and ceded premium written, respectively, which has been allocated to the unexpired underlying risk.

Investments

The Company's investment portfolio is accounted for on a trade-date basis. Investments in fixed income securities are carried at 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. Investments denominated in currencies other than US dollars are accounted for at their US dollar equivalent using exchange rates in effect at the balance sheet date. Unrealized foreign exchange gains or losses on investments are recorded in the statutory capital and surplus. Short-term investments are carried at cost.

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, 2007, the Company recognized impairment losses of US\$ 12,875,095.

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.

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part I (continued)

4. Commissions

Ceding commissions received under ceded reinsurance contracts are deferred and amortized into the income statement over the periods in proportion to the earnings of the related ceded premiums.

5. The functional currency of the Company is US dollars and all transactions in other currencies are translated into US dollars and are reported in the statutory financial statements at the rate of exchange as of December 31, 2007. Any gains or losses on the revaluation of the transactions from their historical rate to the end of period rate are treated as unrealized and are included in other income on the income statement. For the reporting period ending December 31, 2007, The Company has reported US\$ 1,520,306 of unrealized foreign exchange gains on the income statement.

6. None

7. In order to support the operations of its two subsidiaries, CIFG NA and CIFG Europe, The Company has entered into irrevocable capital maintenance agreements with each. These agreements require that The Company contribute capital to CIFG NA and CIFG Europe if their statutory capital levels fall below US\$ 80 million and €20 million respectively. As of December 31, 2007, The Company recognized an amount due to affiliates of US\$14,000,000 under the agreement with CIFG NA. CIFG EU did not incur any insurance related losses that would have activated this agreement as the losses of CIFG EU are limited to €20 million under the stop loss reinsurance agreement between CIFG EU and The Company. Additional capital contributions to CIFG Services, Inc. made post year end under the capital maintenance agreement are discussed in Note 12 below. CIFG NA and CIFG EU may require further capital contributions under the capital maintenance agreement.

In December 2007, one of The Company's subsidiaries, CIFG NA was named as part of two legal actions with regards to the providing of credit protection for which CIFG NA had not issued any financial guaranty policies. Although CIFG NA intends to vigorously defend itself, in the event that these disputes are decided adversely, CIFG NA would be required to record reserves with respect to these transactions. As such, should this adverse development occur in respect to CIFG NA, The Company could potentially be required to record additional reserves.

8.– 11. Not applicable

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part I (continued)

12. In March 2008, The Company issued a capital contribution to CIFG Services Inc. in the amount of US\$ 50million, which was in turn contributed by CIFG Services, Inc. to CIFG NA. The US\$ 50 million represented the payment of the amount due to CIFG NA under the keep well agreement of US\$ 14 million and an additional capital contribution of US\$ 36 million. Additionally in May 2008, The Company issued a capital contribution to CIFG Services, Inc. in the amount of US\$ 87,566,137, which was in turn contributed by CIFG Services, Inc. to CIFG NA.

The impact of these post year end capital contributions to CIFG Services, Inc. under the capital maintenance agreement will be to increase the value of The Company's investment in affiliates, which are recorded under the equity basis of accounting, by US\$137,566,137 (as disclosed in Part II, Note 4, the equity value at December 31, 2007 of CIFG Services, Inc. was US\$(14,038,488)). CIFG NA is regulated by the New York Department of Insurance. Therefore there are restrictions on the ability of CIFG Services, Inc. to make distributions or pay dividends to The Company.

13. As of December 31, 2007, The Company had 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. Adverse developments in the credit markets in 2007, have had a material adverse impact on the business of the results of operations and financial condition, as reflected by the establishment of loss reserves on financial guarantee contracts. The impact of the deterioration in the credit markets and the estimated effect on the obligations reinsured by The Company have resulted in a substantial increase to the level of capital required by the rating agencies to support a triple-A rating. For this and other reasons, in early 2008, each of the three rating agencies lowered their ratings of CIFG Guaranty, CIFG Europe and CIFG NA from triple-A to the A-rating category. In March 2008, The Company requested that Fitch Ratings withdraw its rating. Further, in May 2008, Moody's downgraded the financial strength ratings of The Company to Ba2, under review, direction uncertain and Fitch downgraded the rating to CCC, credit watch evolving. In June 2008, S&P downgraded The Company's rating to A-minus, credit watch negative.

Due to a combination of market conditions, a reconsideration of strategic alternatives and the result of the ratings actions noted above, The Company voluntarily ceased writing new business for an interim period of time in order to preserve capital and evaluate the strategic alternatives to enhance their capital position and mitigate anticipated losses. The Company's parent, CIFG Holding Ltd has engaged financial advisors to assist in the evaluation of strategic alternatives to enhance its capital position, which may include, but not necessarily be limited to,

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part I (continued)

13. (continued)

markets and lines of financial guaranty products, which may be different than those that have traditionally been served by The Company. There can be no assurance that the alternatives being evaluated will not evolve or change over time, will be successfully implemented or will address the capital and other requirements of the rating agencies to either avoid further rating downgrades or improve ratings which would facilitate the resumption of new business origination activities.

The financial strength ratings downgrades have negatively impacted the Company's ability to generate new business and will affect The Company's future business, operations and financial results. The extent and duration of any continued deterioration in the credit markets is unknown, and there is significant uncertainty surrounding the level of potential claim payments and the ultimate loss The Company may incur on obligations it has guaranteed. As a result, adverse development of The Company's loss reserves could cause it to be out of compliance with regulatory solvency requirements.

In May 2008, The Company signed a Voluntary Letter of Undertaking with the Bermuda Monetary Authority (BMA). Under this letter The Company has agreed to provide the BMA with biweekly updates of its ongoing strategic planning; consultation on (i) declaration and/or payment of dividend, (ii) distributing any statutory capital (other than the payment of expenses incurred in the ordinary course and interest payments on The Company's subordinated surplus note obligations, (iii) entering into any intercompany loans or guarantees, (iv) any contracts of insurance or reinsurance and (v) entering into any restructuring or other related transactions to which The Company is a party.

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part II

1. Cash and Time Deposits

The Company records all cash transactions at the foreign exchange rate as per the balance sheet date. Short-term investments are carried at cost and investments denominated in currencies other than US dollars are accounted for at their US dollars equivalent using exchange rates in effect at the balance sheet date.

2. Quoted Investments

The Company has pledged certain dollar investments as collateral to support its reinsurance obligations under the reinsurance agreement with its subsidiary, CIFG NA. these investments are held in a custodial trust account which is governed in accordance with the New York State insurance regulation 11NYCRR126. As at December 31, 2007, the value of these pledge assets was \$754,700,000.

4. Investments in and Advances to Affiliates

The Company records the value of its investments in its subsidiaries, CIFG Services, Inc. and CIFG Europe, on the equity basis of accounting. The equity values of these investments have been adjusted to reflect the elimination of various non-admitted assets on a Bermuda Statutory basis. The value of the investments in CIFG Services, Inc. and CIFG Europe at December 31, 2007 was US\$ (14,038,488) and US\$ 18,729,846. At December 31, 2007, The Company also recorded an asset of US\$ 14 million recognizing the capital contribution due to CIFG Services, Inc. under the capital maintenance agreement.

5.- 12. Not applicable

13. Sundry Assets

From January 1, 2007 to September 30, 2007, The Company was a French domiciled entity and, as such, was subject to applicable French income taxes. Three estimated tax payments were remitted for the quarters ending 31 March, 30 June and 30 September for a total of US\$ 8,519,046 (€5,792,905). Actual taxes due in France on the net income for the first nine months of 2007 was US\$927,688 (€630,823) resulting in a refund due to CIFG Guaranty for overpayment of income taxes of US\$7,591,358 (€5,162,082). This is recorded as a sundry asset on the balance sheet.

14. Not applicable

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part II (continued)

16. Unearned Premiums (Deferred Premium Revenue)

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 basis over each installment period. If a guaranteed issue is retired early, the remaining deferred premium will be earned. 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.

17. Loss and Loss Expense Provisions

Loss and loss expense provisions of US\$ 1.7billion have been recorded by The Company at December 31, 2007. Reserves were predominantly due to the unprecedented stress conditions in the U.S. mortgage and credit markets and were recorded for financial guarantees of Residential Mortgage Backed Securities (RMBS) where the underlying collateral is HELOC and 2nd Lien mortgages and for financial guarantees of CDO's where the underlying collateral is asset-backed securities predominantly comprised of sub-prime mortgage exposures.

The reserve for losses and loss adjustment expenses consists of case basis loss and loss adjustment expense reserves and active credit reserves or special unallocated reserves. CIFG posts case reserves on a risk-by-risk basis when a loss on a given risk becomes "probable," which CIFG interprets to mean more likely than not. For financial guaranty insurance, the trigger event for a loss is typically the failure to pay current interest and scheduled principal. When this happens, there is a loss and the financial guarantor makes a claims payment, often there will be a subsequent recovery, but a loss certainly has occurred when the insurer actually makes a payment. For the purposes of establishing a date of loss, CIFG uses the date that the loss was deemed to be "probable" as the date of loss.

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part II (continued)

17. Loss and Loss Expense Provisions (continued)

Reserves for reported Claims

Case basis loss reserves are recorded for financial guaranty policies, when it is probable that a loss has been incurred and it can be reasonably estimated. When losses occur, case basis loss reserves are 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 case reserves and unallocated loss reserve cover credit losses and credit deterioration that have occurred to date. In establishing loss and loss expense provisions, at December 31, 2007, The Company has considered information about portfolio data and ratings of the underlying collateral received post year end. The Company has used the latest available information to determine whether it is probable that a loss has been incurred and it can be reasonably estimated.

In establishing case basis loss reserves for ABS CDOs, The Company utilized the average of two Monte Carlo simulation results which model the detailed cash flows from the underlying collateral in each ABS CDO. The default rates for the underlying collateral are obtained from the underlying ratings for the collateral as provided by two rating agencies. The Monte Carlo simulator produces and estimates the discounted ultimate loss for the ABS CDO based upon the default rates and estimates of recovery in the event of default, resulting in management's best estimate for the ultimate loss on these credits. For statutory reserving purposes, the investment portfolio yield is the appropriate discount rate.

For certain RMBS transactions there has been some additional deterioration on the deals for which the primaries had established case reserves as of December 31, 2007. The increase in delinquencies caused The Company's model to forecast higher losses over the life of the transaction which are being recognized in the reserves posted by The Company.

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part II (continued)

17. Loss and Loss Expense Provisions (continued)

Reserves for Unreported Claims

It is industry practice to accrue a reserve called the unallocated loss reserve. The development of active credit reserves is based upon the historical loss experience for the financial guaranty industry and management's judgment based on the Company's insured portfolio. The active credit reserve is an estimate of probable losses that are not specific to an insured obligation, but represents credit deterioration on guaranteed issues that are not presently or imminently in default. The determination of the active credit 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 financial guaranty premiums earned. The active credit reserve is recorded on an undiscounted basis. Typically this is accrued each period as a percentage of earned premium; CIFG historically has accrued 10% of its earned premiums into this reserve. On a portfolio basis, the unallocated loss reserve can be thought of as measuring the deterioration in credit quality for the insured portfolio since the time of underwriting. The unearned premium reserve covers expected future losses.

The Company believes that in the aggregate the recorded reserves represent its best estimate of the ultimate cost of claims on the exposures in force as of the balance sheet date. The reserves represent a base case best estimate, as opposed to a stress case. The Company has performed stress analyses which produce materially higher indicated losses, but believes that the recorded reserves represent a reasonable best estimate. The Company's reserving models are dependent upon assumptions and subjective judgments made by management. Small changes in any significant assumption, such as but not limited to, default rates, projections of delinquencies, prepayment speed, recoveries and third-party credit ratings may materially impact The Company's loss reserve expectations, particularly since there is significant uncertainty in the credit and mortgage markets that has led to unprecedented economic conditions. Further deterioration in the RMBS, ABS CDO's, or other obligations The Company guarantees may result in substantial increases in loss and loss expense provisions in the future.

18. Not applicable

28.-30. Not applicable

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part II (continued)

32. Amounts due to Affiliates

The Company has intercompany service agreements with CIFG Services, Inc and CIFG Europe for general and administrative services performed on its behalf by employees or service providers of its subsidiaries. As of December 31, 2007, The Company recorded a charge due to CIFG Services, Inc. of US\$ 9,577,455.

In order to support the operations of its two subsidiaries, CIFG Assurance North America, Inc. & CIFG Europe, The Company has entered into irrevocable capital maintenance agreements with each. These agreements require that The Company contribute capital to CIFG Assurance North America, Inc and CIFG Europe, if their statutory capital levels fall below US\$ 80 million and €20 million respectively. As of December 31, 2007, The Company recognized an amount due to affiliates of US\$14,000,000 under the agreement with CIFG Assurance North America, Inc.

33.-37. Not applicable

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part III

1.- 17. Not Applicable

37. Other Income (Deductions)

CIFG Guaranty Ltd. records its investments in affiliates, CIFG Services, Inc. & CIFG Europe, on the basis of the equity method of accounting. During the statutory income statement reporting period of October 1, 2007 to December 31, 2007, the equity of CIFG Services, Inc. and CIFG Europe incurred losses of US \$(179,430,231) and of US\$ (19,631,985), respectively, resulting in an other deduction to the income of CIFG Guaranty Ltd. of US\$199,326,292.75 for the reporting period ending December 31, 2007.

Additionally included are the unrealized foreign exchange gains and losses due the revaluation of unearned premium reserves for non-USD policies recorded at their historical cost. The unrealized gain is included in other income for the statutory reporting period is US\$1,520,306.

38.-40. Not Applicable

41. Realized Gains (Losses)

Realized gains and losses on the sale of investments are determined on the basis of first in, first out ("FIFO"). Non-USD investments are revalued to their end of period rates and any gain or loss due to foreign exchange revaluations are reported as realized gains losses at the time of disposal on the statutory statement of income. For the statutory reporting period of October 1, 2007 to December 31, 2007, The Company reported realized losses on the disposal of investments of US\$30,635 USD and realized losses on the foreign exchange revaluation of \$5,549,370. The Company also includes in realized losses, any decreases in the value of its investments which may be deemed as other than temporary impairments. As of December 31, 2007, The Company reviewed all of its quoted investments and determined that it held two such investments within its investment portfolio. The Company recorded an impairment charge in its statutory income statement as realized losses on investments in the amount of US\$12,875,095.

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part IV

1. Statutory Capital

(a) Capital Stock

The Company has authorised and issued non-voting, common stock shares of 61,254,451 with a par value of €10.00. On October 1, 2007, with the approval of the Bermuda Monetary the authorised and issued capital was altered from 61,254,451 shares of par value €10.00 to 61,254,451 share of US\$ 14.222 par value each. As of December 31, 2007, there were no unauthorized or unissued shares of capital stock.

(b) Contributed Surplus

On December 20, 2007, CIFG Guaranty Ltd's parent and sole shareholder, CIFG Holding Ltd. provided an additional \$1,290,000,000 in cash to The Company as a capital contribution, in connection therewith, no additional shares were issued.

- (c) In December 2007, The Company received US\$ 100,000,000 from its parent and sole shareholder, CIFG Holding Ltd. This funding was supported by a subordinated surplus note. Under the terms of the loan agreement, which matures on December 10, 2024, The Company is required to remit interest payments to CIFG Holding Ltd. at six month intervals until such time as the loan has been paid in full either at the time of maturity or before. A fixed interest rate phase during the term of the loan exists for a period of 2 years, December 10, 2007 to December 10, 2009 during which an interest charge of 8% is charged on the outstanding loan balance. As the end of the fixed interest rate phase, a floating interest rate of LIBOR plus 4% per annum will be applied to the outstanding loan balance. The agreement also defines the terms under which singular or multiple early repayments may be made. The terms permit early repayment under the following conditions: (i) prior approval received by the Company's regulator, the Bermuda Monetary Authority as well as confirmation that any early repayment would not have a material adverse affect on its rating; (ii) irrevocable written notice provided ten days in advance; (iii) date of repayment to coincide with interest payment or other mutually agreed upon date; and (iv) the repayment is for a minimum of US\$ 5,000,000. The agreement further defines the condition under which The Company may defer interest payments. At any interest payment date, should the payment of the interest results or could result in a regulatory or rating agency action, all or a portion of the interest payments may be deferred for one or several interest periods over a maximum of seven years. A deferral must justified by probative means such as a letter from a regulator, rating agency or reputable law firm advising that the payment in not permitted or would have an adverse affect on The Company. This deferral is applicable for the period for which an adverse affect would incur or is no longer prohibited.

CIFG Guaranty Ltd.
Notes to Statutory Financial Statements
For the period 1 October to 31 December 2007

Part IV

1. (c) Statutory Capital (continued)

Deferred interest payments are due in part or in full on the next interest payment date. The Company has received the approval of the Bermuda Monetary Authority for the treatment of the surplus note as part of its capitalization. The approval has been granted for the period that the subordinated note is in force and effect.

2. Statutory Surplus

(a) – (c) Not Applicable

(g) Other Statutory Surplus

On October 1, 2007 The Company changed its functional and reporting currency from Euros to US dollars. As such an unrealized gain occurred due to the revaluation of the equity from historical rates to the end of period rate. This amounted to US\$25,919,870 for the statutory reporting period ending December 31, 2007.

CIFG GUARANTY LTD.
GENERAL BUSINESS SOLVENCY CERTIFICATE

For the period ended December 31, 2007

We, the Principal Representative and Directors of **CIFG Guaranty Ltd**, hereinafter referred to as "the Insurer", do hereby certify that:-

- (1) The Insurer has prepared Statutory Financial Statements in accordance with the Act, for the period ended December 31, 2007, and that they are available at IAS, 44 Church Street, Hamilton which is the Insurer's principal office in Bermuda.
- (2) The Insurer has complied with every condition attached to its Certificate of Registration.
- (3) The aggregate value of the assets shown in the Statutory Balance Sheet is \$2,211,177,437 and, in our opinion, the said value was determined in accordance with the Insurance Act 1978 and applicable regulations and the value of the Insurer's assets is at least equal to the value shown in the Statutory Balance Sheet.
- (4) In our opinion, the aggregate amount of the Insurer's liabilities is not more than that shown in the Statutory Balance Sheet except for loss and loss expense provisions where the liability is estimated and may ultimately be settled for a greater or lesser amount. Any differences between estimates and ultimate payments will be reflected in the Insurer's Statutory Statement of Income of future accounting periods when such adjustments become known.
- (5) The following aggregate amounts appear in the Statutory Balance Sheet and Statutory Statement of Income for the period ended December 31, 2007:

a) Gross Premiums Written	\$ 19,390,092
b) Reinsurance Premiums Ceded	\$ 361,865
c) Net Premiums Written	\$ 19,028,227
d) Loss and Loss Expense Provision	\$ 1,720,074,561
- (6) The accounts of the Insurer have not been audited for a purpose other than that required by the Regulations.
- (7) The applicable minimum liquidity ratio was met during the period ended December 31, 2007.
- (8) The minimum general business solvency margin was \$258,011,184 and it was met.

**CIFG GUARANTY LTD.
GENERAL BUSINESS SOLVENCY CERTIFICATE**

For the period ended December 31, 2007

- (9) The aggregate amount of capital and surplus shown in the Statutory Statement of Capital and Surplus was \$ 260,496,676.
- (10) The Statutory Financial Statements were prepared in U.S. Dollars and the figures were translated into Bermuda Dollars at par to prepare this return.

PRINCIPAL REPRESENTATIVE

For and on behalf of INTERNATIONAL
ADVISORY SERVICES LTD.



David Alexander

13th June 2008

(date)

RESIDENT DIRECTOR



13th June 2008

(date)

DIRECTOR



6/13/2008

(date)

**CIFG GUARANTY LTD.
DECLARATION OF STATUTORY RATIOS**

For the period ended December 31, 2007

- | | | |
|-----|---|----------|
| (A) | The Premiums to Statutory Capital and Surplus Ratio was | 0.073:1 |
| (B) | The Five Year Operating Ratio was | 9629.34% |
| (C) | The Change in Statutory Capital and Surplus Ratio was | N/A |

The above ratios were calculated in accordance with Schedule II of the Insurance Returns and Solvency Regulations, 1980.

PRINCIPAL REPRESENTATIVE
For and on behalf of INTERNATIONAL
ADVISORY SERVICES LTD.



David Alexander

13th June 2008

(date)

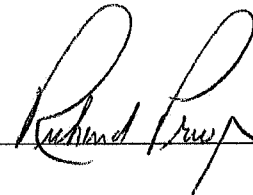
RESIDENT DIRECTOR



13th June 2008

(date)

DIRECTOR



6/13/2008

(date)



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The Bermuda Monetary Authority
Hamilton
Bermuda

We have audited the Statutory Balance Sheet and Statutory Statement of Capital and Surplus of CIFG Guaranty Ltd. as at December 31, 2007 and the Statutory Statement of Income for the period from October 1, 2007 (date the Company re-domiciled from France) to December 31, 2007. We have also audited the Statutory Financial Statements, Solvency Certificate and Declaration of Statutory Ratios for compliance with the criteria established by provisions of The Insurance Act 1978, amendments thereto and related Regulations insofar as such provisions relate to accounting and financial reporting matters ("the Act and Regulations"). These Statutory Financial Statements are the responsibility of the Company's management. Compliance with the criteria established by the provisions of the Act and Regulations is also the responsibility of the Company's management and of the Principal Representative. Our responsibility is to express an opinion, based on our audit, on the Statutory Financial Statements and an opinion on the compliance referred to above.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that an audit be planned and performed to obtain reasonable assurance whether the Statutory Financial Statements are free of material misstatement and whether the Statutory Financial Statements, the Solvency Certificate and the Declaration of Statutory Ratios comply with the criteria established by provisions of the Act and Regulations. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statutory Financial Statements and evidence supporting the compliance of the Statutory Financial Statements, the Solvency Certificate and the Declaration of Statutory Ratios with criteria established by provisions of the Act and Regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statutory Financial Statement presentations and the overall compliance of the Statutory Financial Statements, the Solvency Certificate and the Declaration of Statutory Ratios with criteria established by provisions of the Act and Regulations.



In our opinion:

1. The Statutory Financial Statements present fairly, in all material respects, the information therein in accordance with the Act and Regulations;
2. The Statutory Financial Statements, Solvency Certificate and Declaration of Statutory Ratios comply, in all material respects, with the criteria established by the Act and Regulations; and
3. The opinions expressed in the aforementioned Solvency Certificate, insofar as they relate to accounting and financial reporting matters, are reasonable.

The Statutory Financial Statements have been prepared assuming that the Company will continue as a going concern. As discussed in Part I, Note 13 to the Statutory Financial Statements, the Company has suffered significant losses from operations in 2007, the Company's ratings have been downgraded by all three rating agencies, and the Company has suspended writing all new business. These matters raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in Part I, Note 13. The Statutory Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

The opinions set out above are based on information available to June 13, 2008, the date of substantial completion of our audit work. The Statutory Financial Statements, which have not been, and were not intended to be, prepared in accordance with accounting principles generally accepted in the United States of America, are solely for the information and use of the Bermuda Monetary Authority and are not intended to be and should not be used by anyone other than the Bermuda Monetary Authority, or for any other purpose.



CIFG Guaranty Ltd.
June 13, 2008

For purposes of identification, the following appear in the Solvency Certificate and Declaration of Statutory Ratios:

General Business Solvency Certificate:

Aggregate value of assets	\$ 2,211,177,437
Gross premiums written	\$ 19,390,092
Gross reinsurance premiums ceded	\$ 361,865
Net premiums written	\$ 19,028,227
Loss and loss expense provisions	\$ 1,720,074,561
Minimum Solvency margin	\$ 258,011,184
Statutory capital and surplus	\$ 260,496,676

Declaration of Statutory Ratios:

Premium to statutory capital and surplus ratio	0.073:1
Five year operating ratio	9,629.34%
Change in statutory capital and surplus ratio	N/A

KPMG

June 13, 2008

Chartered Accountants