

CIFG Holding

Statutory Auditors' Report

Financial Statements – Year ended 31 December 2004

(Translated from French into English)

PRICEWATERHOUSECOOPERS AUDIT

MAZARS & GUÉRARD

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SOCIETE ANONYME D'EXPERTISE COMPTABLE ET DE COMMISSARIAT AUX COMPTES

CAPITAL DE 5 900 000 EUROS - RCS PARIS B 784 824 153 - SIEGE SOCIAL : 39, RUE DE WATTIGNIES- 75012 PARIS

CIFG Holding

Siège Social : 31-33, rue de Mogador - 75009 Paris
Société Anonyme au capital de 450 078 480 €
N° RCS : Paris B 439 357 302

Statutory Auditors' Report

Financial Statements – Year ended December 31, 2004

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PRICEWATERHOUSECOOPERS AUDIT

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Statutory Auditors' Report (Translated from French into English)

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law and this is presented after the Opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. The report also includes information relating to the specific verification of information in the group management report. This report, together with the statutory auditors' report addressing financial and accounting information in the Presidents' report on internal control, should be read in conjunction with French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your shareholders' annual general meeting, we hereby report to you, for the year ended December 31, 2004, on:

- the audit of the accompanying financial statements of CIFG Holding,
- the justification of our assessments,
- the specific verifications and information required by law.

These financial statements have been approved by the Directoire. Our role is to express an opinion on these financial statements based on our audit.

1 Opinion on the financial statements

We conducted our audit in accordance with the professional standards applicable in France. 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. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

CIFG Holding

*Financial Statements Year
ended 31 December 2004*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004, and the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

2 Justification of assessments

In accordance with the requirements of article L. 225-235 of the French Commercial Code relating to the justification of our assessments, we have no matters to report with regard to our assessments contributing to the development of the opinion above, concerning in particular the accounting principles used and significant estimates made in the financial statements, as well as the overall financial statement presentation.

Our assessments on these matters were made in the context of the performance of our audit of the financial statements taken as a whole and therefore contributed to the development of the unqualified audit opinion expressed in the first part of this report.

CIFG Holding

*Financial Statements Year
ended 31 December 2004*

3 Specific verifications and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report of the Diectoire, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Paris, March 31th 2005

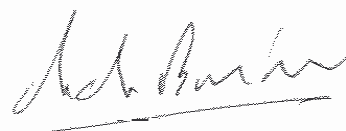
Statutory Auditors

**PRICEWATERHOUSECOOPERS
AUDIT**



Michel Laforce

MAZARS & GUÉRARD



Charles de Boisriou



Gilles Magnan

**CIFG Holding
Balance Sheet
(In '000 euros)**

	As of 31 December 2004			As of 31 December 2003
	Gross	Amortization/ depreciation	Net	Net
Assets				
Long term assets				
Investment in subsidiaries	€ 564,085	€ ---	€ 564,085	€ 497,587
Total long term assets	564,085	---	564,085	497,587
Operating assets				
Other assets	---	---	---	47
Short-term investments	828	---	828	1,336
Cash	734	---	734	1
Total operating assets	1,562	---	1,562	1,384
 Total assets	 € 565,647	 € ---	 € 565,647	 € 498,971
Shareholders' equity and liabilities				
Share capital			€ 450,078	€ 500,087
Paid in Capital			50,009	---
Legal Reserve			18	18
Retained deficit			(1,240)	(836)
Net loss for the period			(639)	(404)
Total net equity			498,226	498,865
Payables				
Long term debt			66,051	---
Due to employees, social security, tax			---	6
Other payables			122	100
Total payables			66,173	106
 Net currency translation adjustment			1,248	---
 Total shareholders' equity and liabilities			 € 565,647	 € 498,971
Off balance sheet items				
			As of 31 December	
			2003	2002
Commitments received			€ 80,645	€ 0
Commitments given			30,300	34,100

CIFG Holding
Profit & Loss Statement
(In '000 euros)

	31 December	
	2004	2003
Operating expenses		
Other operating expenses	€ (583)	€ (559)
Taxes and equivalent expenses	---	---
Total operating expenses	<u>(583)</u>	<u>(559)</u>
Net operating income	<u>(583)</u>	<u>(559)</u>
Investment income		
Other interest income	---	226
Realized FX gains	---	28
Realized gains on sale of SICAV	20	367
Total investment income	<u>20</u>	<u>621</u>
Investment expense		
Interest expense	(74)	(466)
Realized FX losses	(2)	---
Total investment expense	<u>(76)</u>	<u>(466)</u>
Net Investment income	<u>(56)</u>	<u>155</u>
Current Income before tax	(639)	(404)
Income tax	---	---
Net income for the period	<u>€ (639)</u>	<u>€ (404)</u>

CIFG HOLDING
NOTES TO FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2004

I. INTRODUCTORY COMMENTS

On December 31, 2004 CDC IXIS, which held 100% of the share capital of CDC IXIS Financial Guaranty Holding (hereinafter referred to as the Company or Holding), was merged with the Caisse Nationale des Caisses d'Epargne (CNCE) and therefore, Holding is now a wholly-owned subsidiary of CNCE.

By a decision taken at an Extraordinary General Shareholders Meeting on October 29, 2004, the name of CDC IXIS Financial Guaranty Holding was changed to CIFG Holding. In addition, on that date, the other French affiliates of the CIFG Group modified their names, whereby CDC IXIS Financial Guaranty adopted the name of CIFG Guaranty, and CDC IXIS Financial Guaranty Europe adopted the name CIFG Europe. On January 11, 2005, CDC IXIS Financial Guaranty Services Inc. changed its name to CIFG Services. Effective February 23, 2005, the name of CDC IXIS Financial Guaranty North America, Inc. was changed to CIFG Assurance North America, Inc. (CIFG NA)

On December 20, 2004 CIFG Holding entered into a loan agreement and a loan commitment facility agreement with CNCE for a total amount of \$200 million. On December 22, 2004, Holding drew \$90 million under the loan facility, leaving \$110 million available on an unconditional and irrevocable basis for future draws. On December 22, 2004, the proceeds of this loan were used to increase the capital of the Company's wholly-owned subsidiary by a subscription to an increase of capital of CIFG Guaranty for an amount equivalent in euros to \$89 million, or €66 million, thus increasing the share capital of CIFG Guaranty from €498 million to €564 million. The remaining \$1 million of loan proceeds were held by CIFG Holding for general corporate purposes.

In addition, during 2004, CIFG Guaranty subscribed to a \$10 million increase of capital of its US direct subsidiary.

On January 29 2004, CIFG Holding implemented an employee stock option plan in order to motivate and retain the employees of the Group. In connection therewith, on January 29, 2004 the Company decreased the nominal value of its share capital from € 10 to € 9, resulting in a reclassification of its equity. Thus, share capital was reduced from € 500,087,200 to € 450,078,480 and Additional Paid in Capital was increased by a corresponding amount.

As of December 31, 2004, CIFG Holding is the owner of the following companies:

In France:

- CIFG Guaranty, a wholly-owned subsidiary of CIFG Holding, is a French reinsurance company with a total equity of €564 million.

- CIFG Europe, a wholly-owned subsidiary of CIFG Guaranty, is an insurance company for financial guaranty business (*branch 15 Caution*) with a total equity of €32 million.

In the United States:

- CIFG Services, a wholly-owned subsidiary of CIFG Guaranty, is a US-based management company with headquarters in New York, with a capital of \$ 150.

CIFG HOLDING
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF 31 DECEMBER 2004

OTHER INFORMATION

- CIFG Holding, a wholly-owned subsidiary of CNCE and its subsidiaries (the CIFG Group or the Group) form an insurance and reinsurance group, operating exclusively in the financial guaranty business. The Group commenced operations in 2001 and issued its first insurance policies in 2002
- The financial strength rating of CIFG Guaranty, CIFG NA and CIFG Europe is rated AAA by Standard & Poor's and by Fitch Investors Service, and rated Aaa by Moody's Investors Service.
- In 2003, in order to increase the underwriting capacity of CIFG Guaranty and its subsidiaries, the Company received aggregate 200 million euros of additional capital through draws on the Subordinated Loan Facility with CDC IXIS. The Company then converted such draws to equity, and made capital contributions aggregating 198 million to its wholly-owned subsidiary CIFG Guaranty.
- US licensing efforts:
 - In furtherance of CIFG NA's efforts to expand its ability to provide its products in additional U.S. markets, in February of 2003, CIFG NA acquired 100 % of the stock of Western Continental Insurance Company, a Texas stock insurance company licensed in thirty-nine U.S. States and the District of Columbia (WCIC) from Rampart Insurance Company, a New York stock insurance company (Rampart) and Rampart's indirect parent company Groupama S.A (the Acquisition).
 - Prior to the Acquisition, and pursuant to the approval of the Texas and New York Departments of Insurance, all of WCIC's existing liabilities were transferred from its balance sheet by means of "assumptive reinsurance". Assumptive reinsurance is recognized by the insurance regulators as a mean to transfer the existing insurance obligations directly from the cedant to the reinsurer on a direct basis, and there is no contingent liability of the cedant towards those obligations. The obligations of Rampart under the stock purchase agreement and under the assumption reinsurance agreement were guaranteed by Groupama S.A. CIFG NA paid Rampart \$7.6 million as consideration for the 40 licenses, plus \$12.7 million, representing the fair market value of the cash and investments of WCIC on the date of Acquisition, and thereby acquired WCIC as a "clean shell." In addition to the approval granted by the Texas Insurance Department, the Acquisition plan was approved by the New York State Insurance regulators in the context of the status of CIFG NA as a "monoline" financial guaranty insurer (i.e. not permitted to have any exposure to risk other than financial guaranty insurance).
 - Subsequent to the Acquisition, and pursuant to the approval of the Texas and New York Departments of Insurance, WCIC was re-domesticated to the State of New York by merger with and into Western Continental Insurance Company of

CIFG HOLDING
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF 31 DECEMBER 2004

New York, Inc., (WCIC N.Y.) a New York stock Insurance Corporation wholly-owned by CIFG NA. The effective date of such re-domestication by merger was June 30, 2003.

- Effective August 31, 2003, pursuant to the approval of the New York State Insurance Department, CIFG NA merged with and into WCIC NY. The name of the surviving entity was then changed to CDC IXIS Financial Guaranty North America, Inc.
- Effective September 20, 2003, the shares of CIFG NA were transferred to a voting trust, in order to comply with certain US state restrictions regarding the ownership of US insurance companies. In accordance with the trust agreement, the voting trust has five trustees, two of whom must be employees of CDC IXIS, two of whom must be employees of CIFG Services, and three of whom must also be U.S. residents. In accordance with the trust agreement signed on September 17, 2003 by the five trustees, CIFG NA and CIFG Services, and the Trust Certificate signed by the five trustees, although the shares are owned by the trustees, CIFG Services retains the economic benefits of the shares of CIFG NA, and as such, CIFG NA's financial statements are consolidated with those of the Group.
- As of 31 December 2004, CIFG NA is licensed in forty four states.

II – APPLICABLE ACCOUNTING METHODS AND PRINCIPLES

The financial statements of CIFG Holding are prepared in accordance with French Generally Accepted Accounting Principles (*Plan Comptable Général*).

The main accounting policies are described below:

- Investments in subsidiaries and short term investments are recorded at historical cost.
- Depreciation reserves, if any, would be recorded as follows:
 - for short-term investments, by reference to their market value
 - for investments in subsidiaries, by reference to their fair value
- Amounts payable or receivable in currency other than euros are recorded using the exchange rate in force at the date of the transaction, and revaluated at the year-end rate. The resulting revaluation differences are accounted for in specific balance-sheet accounts. In the event of unrealized losses, a reserve is recorded through a charge to current earnings.

CIFG HOLDING
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF 31 DECEMBER 2004

III – NOTES TO BALANCE SHEET --- ASSETS

a) Investments in subsidiaries

As of 31 December 2004, CIFG Holding owns 56,408,446 shares of its sole subsidiary, CIFG, out of the 56,408,451 issued shares:

(in 000)	Share Capital as of 31 Dec 2004	Reserves	Holding at 31 Dec 2004	Net Book Value as of 31 Dec 2004	Outstanding loans and cash advances granted	Gross written premiums (2004)	Net result (2004)	Dividends received during 2004
CIFG Guaranty	564,085	17,483	100%	564,085	---	39,454	8,371	---

As of 31 December 2004, no reserve for depreciation has been recorded on the investment in CIFG.

As the majority shareholder of CIFG, CIFG Holding has committed not to initiate any transaction which would result in a significant reduction in CIFG'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 claims paying rating of CIFG.

b) Short-term investments

Short-term investments consist of shares of money-market SICAV. At 31 December 2004, book value of short-term investments approximates fair value.

IV – NOTES TO BALANCE-SHEET - LIABILITIES

a) Share capital

As of 31 December 2004, the share capital is composed of 50,008,720 shares with a par value of €9, fully subscribed and granting all the same rights.

b) Subordinated Loan

CIFG Holding entered into a loan agreement with CNCE on 20 December 2004 for an amount of \$ 90 million. The loan is not-amortizing and has a final maturity of December 20, 2024. The loan may not be repaid by CIFG Holding until December 20, 2009, after which it may be repaid in whole or in part. The loan has a fixed rate of 4.24% during the first five years (through December 20, 2009) and thereafter carries a variable rate of interest equal to three-month libor plus a margin.

The fluctuation of USD/EUR parity between December 22 (date when CIFG Holding received the proceeds of the loan) and December 31 generated a translation gain of € 1.2 million.

CIFG HOLDING
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF 31 DECEMBER 2004

c) Other Payables

On 31 December 2004, Other Payables included amounts payable to CIFG Services and CIFG Europe for management services rendered to CIFG Holding. All these amounts are due within less than one year.

V – NOTES ON PROFIT & LOSS STATEMENT

a) Operating Expenses

In 2004, CIFG Holding did not employ any staff and its operating expenses primarily consist of management services provided and charged under management services agreement with CIFG Services and CIFG Europe.

b) Investment Income and Expenses

Other Interest income corresponds to the share of commitment fees paid by CIFG Holding on the subordinated loan and recharged to CIFG while the total commitment fees paid by CIFG Holding to CDC IXIS is shown under the Interest Expense line.

c) Income tax

As at 31 December 2004, CIFG Holding is in a tax loss position.

CIFG Holding is part of consolidation group of CNCE. Under a current tax consolidation agreement, CIFG Holding continues to calculate its income taxes due as if it was on a stand-alone basis, and pays any income tax due to CNCE. The agreement further provides that, if CIFG Holding leaves the tax consolidation, it will be reimbursed for the benefit of any tax losses previously utilized by CNCE.

VI – OTHER INFORMATION

a) Off-balance sheet Items

On December 22, 2004, CIFG Holding entered into a financing commitment facility with CNCE. The agreement provides that, CIFG Holding has the unconditional and irrevocable right to draw up to a total of \$110 million. Draws under the facility would be for a twenty year term from the date of draw and would be non-callable fixed rate for the first five years, and callable and floating rate thereafter

CIFG HOLDING
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF 31 DECEMBER 2004

b) Commitment in favour of CIFG Europe

CIFG Holding has provided a guaranty to a third party covering all of CIFG Europe's insured obligations resulting from transactions signed or to be signed with this specific counterparty between 1 January 2003 and 31 December 2006. As of 31 December 2003, the outstanding par insured by CIFG Europe with respect to this counterparty was 30.3 million euros

c) Consolidation

As required by Articles L 345-2 and L 322-1-2 of Code Des Assurances, CIFG Holding produces consolidated financial statements for the CIFG Group. The consolidated financial statements of the CIFG Group are then consolidated with its parent, CNCE.

d) Compensation paid to members of the *Directoire* and *Conseil de Surveillance* of CIFG Holding in respect of their functions. Credit and advances granted to these same persons

During 2003 and 2004, no compensation was paid to members of CIFG Holding *Directoire* and *Conseil de Surveillance* in respect of their functions, nor was credit or advance granted to these same persons.

e) Option of subscription of investment certificate or shares granted to the employees and to the members of the Executive Board

By decision taken during the General Shareholder meeting on January 29, 2004, the Executive Board approved a stock option plan (the Stock Option Plan), and granted to employees, some of which are members of the Executive Board of CIFG Holding, 3,107,286 options with a ten year term and with an exercise price of € 9.29. The exercise price was calculated based upon the CIFG Group valuation as of June 30, 2003 following a methodology approved by the shareholders. Under the Stock Option Plan, beneficiaries may require that the Company repurchase stock acquired upon exercise of options at the fair market value at the exercise date calculated using the valuation methodology approved by the shareholders.

f) Reduction in Nominal Value of Shares of CIFG Holding

On January 29 2004, CIFG Holding implemented an employee stock option plan in order to motivate and retain the employees of the Group. In connection therewith, on January 29, 2004 the Company decreased the nominal value of its share capital from € 10 to € 9, resulting in a reclassification of its equity. Thus, share capital was reduced from € 500,087,200 to € 450,078,480 and Additional Paid in Capital was increased by a corresponding amount

g) Post-balance sheet events

No event has occurred after 31 December 2004 which is likely to have a significant impact on the financial statements of the Company as of that date.