

FGIC UK Limited

Quarterly Operating Review
Third Quarter 2011





FGIC UK LIMITED
Quarterly Operating Review
Third Quarter 2011

Company Profile

FGIC UK Limited ("FGIC UK Ltd."), a wholly owned United Kingdom insurance subsidiary of Financial Guaranty Insurance Company ("FGIC"), is an insurance company subject to regulation by the Financial Services Authority ("FSA"). UK Limited was authorized to write financial guaranty business in the United Kingdom and had passport rights to write business in other European Economic Area member countries.

This Operating Review should be read in conjunction with the 2010 Director's report and financial statements of FGIC UK Ltd. filed with Companies House. The report can be accessed at <http://www.fgic.com/investorrelations/financialreports/fgicukdirreportfinstatements2010.pdf>

Company Contact Information

FGIC UK Limited

c/o Mazars LLP, London
Tower Bridge House
St Katharine's Way
London
E1W 1DD
United Kingdom

Financial Guaranty Insurance Company

125 Park Avenue
New York, NY 10017
U.S.A.
Phone: +1 212 312-3000 or 1 800 352-0001
Fax: +1 212 312-3093
www.fgic.com



FGIC UK LIMITED
Quarterly Operating Review
Third Quarter 2011

Table of Contents

Selected Financial Information.....	1
Future Premium Collection.....	2
Investment Portfolio.....	3
Provision for Outstanding Claims.....	4
Guaranteed Portfolio by Bond Type.....	5
Guaranteed Portfolio by Issuer.....	6
Net Debt Service Amortization.....	7



SELECTED FINANCIAL INFORMATION
(£ in Thousands)

	Nine Months Ended 30 September 2011 ⁽¹⁾	Nine Months Ended 30 September 2010 ⁽¹⁾	Year Ended 2010
Profit and Loss Account			
Gross premiums written	(1,107)	(2,851)	(3,547)
Outward reinsurance premiums	(0)	2,566	3,192
Change in the gross provision for unearned premiums	7,285	10,504	14,201
Change in the provision for unearned premiums, reinsurers' share	(86,665)	(9,453)	(12,766)
Earned premiums, net of reinsurance	(79,380)	765	1,080
Claims Incurred, gross	3,249	-	-
Claim Incurred, reinsurers' share	-	-	-
Claims incurred, net of reinsurance	3,249	-	-
Net operating expenses	48,325	66	197
Ceding commissions	-	-	-
Balance on the technical account - general business	(34,303)	832	1,277
Investment income	751	777	1,032
Unrealised gains on investments	939	1,251	591
Realised gains/(losses) on investments	19	127	127
Other income and charges	101	(343)	(282)
Profit (Loss) on ordinary activities before tax	(32,494)	2,644	2,745
Taxation on loss on ordinary activities	(53)	-	-
Retained (loss) profit for the financial period	(32,441)	2,644	2,745
Balance Sheet:			
Assets:			
Other financial investments	32,061	26,016	28,984
Provision for unearned premiums, reinsurers' share	-	173,759	171,073
Other Debtors	131,429	139,913	137,707
Other assets	2,379	5,006	2,096
Deferred acquisition costs	10,145	11,318	11,094
Prepayments and accrued income	304	328	447
Total Assets	176,318	356,340	351,401
Liabilities:			
Called up share capital	175	175	175
Share premium account	17,272	17,272	17,272
Profit and loss account	(73,954)	(41,614)	(41,512)
Other reserve	47,855	47,855	47,855
Total shareholder's funds attributable to equity interests	(8,652)	23,688	23,790
Provision for unearned premiums	181,672	193,066	190,064
Provision for outstanding claims	3,082	-	-
Creditors arising out of direct insurance operations	-	87,119	86,402
Other creditors including taxation and social security	-	704	-
Accruals and deferred income	215	51,764	51,145
Total Liabilities	184,970	332,652	327,611

⁽¹⁾ Termination of the UK Ltd and FGIC Reinsurance Agreements

In June 2011, FGIC and FGIC UK Ltd. entered into a Deed of Termination pursuant to which they mutually agreed to terminate the Reinsurance Agreement dated 31 March 2004 and the Excess of Loss Reinsurance Agreement dated 31 March 2004 under which FGIC had provided reinsurance on financial guarantees or policies written by FGIC UK Ltd. to release each other from all present and future claims and liabilities under or in connection with such agreements. Pursuant to the Deed of Termination, FGIC was relieved of its reinsurance obligations in respect of approximately £4.9 billion of par exposure and was permitted to retain 100% of all premiums (net of ceding commissions) previously paid to FGIC.

The termination of the agreements resulted in 1) FGIC UK Ltd fully amortizing the remaining reinsurer's share of unearned premium of approximately £84,590 and 2) write back of deferred reinsurance commissions in the amount of £50,900. The total financial statement charge of £33,690 resulting from the terminations from the agreements approximates the financial statement projected charge of £33,500.



FUTURE PREMIUMS TO BE COLLECTED ⁽¹⁾
(£ in Millions)

	Premium Expected to be collected as at 30 September 2011
<hr/>	
Six months ended:	
31 December 2011.....	0.23
Twelve months ended:	
31 December 2012.....	4.22
31 December 2013.....	5.29
31 December 2014.....	5.46
Five years ended:	
31 December 2019.....	26.46
31 December 2024.....	23.71
31 December 2029.....	21.97
31 December 2034.....	19.41
31 December 2039.....	14.15
31 December 2044.....	6.24
31 December 2049.....	2.49
31 December 2054.....	1.53

⁽¹⁾ The present value of the premium stream detailed above totals £67.34 as of 30 September 2011.



INVESTMENT PORTFOLIO
(£ in Millions)

Other Financial Investments: ⁽¹⁾	30 September 2011	31 December 2010
Shares and other variable yield securities	0.10	0.22
Debt Securities and other fixed income securities	31.13	25.42
Units in collective investment schemes	0.83	3.34
Total	<u>32.06</u>	<u>28.98</u>

⁽¹⁾ Investment values reflect market/ current value. With the exception of the units in collective investment schemes, all amounts included above are in respect of listed investments.

Rating	30 September 2011	31 December 2010
AAA	73.2%	76.6%
AA	12.7%	12.4%
A	13.9%	10.8%
BBB	0.2%	0.2%
	<u>100.0%</u>	<u>100.0%</u>



PROVISION FOR OUTSTANDING CLAIMS
(£ in Thousands)

	30 September 2011	31 December 2010
Provision for outstanding claims, net balance at beginning of period.	-	-
Incurred Related To		
Current Period Claims.	-	-
Current Period Claims Related Expenses	(3,249)	-
Prior Periods Claims.	-	-
Prior Periods Claims Related Expenses.	-	-
Total Incurred.	(3,249)	-
Paid (Recoveries) Related To		
Current Period.	167	-
Prior Periods.	-	-
Total Paid (recoveries).	167	-
Provision for outstanding claims, net balance at end of period.	(3,082)	-



GUARANTEED PORTFOLIO BY BOND TYPE

**Net Par Outstanding
30 September 2011**

	£ in millions	% of Total	Financial Guaranty	Credit Default Swaps
Guaranteed Portfolio by Bond Type: ⁽¹⁾				
Infrastructure				
Project Finance.....	1,823.85	39.1%	1,823.85	0.00
Utility.....	1,729.92	37.1%	1,729.92	0.00
Transportation.....	671.55	14.4%	671.55	0.00
Sub-Sovereign.....	84.14	1.8%	84.1	0.00
Structured Finance		0.0%		
CLO	165.19	3.5%	0.00	165.2
Pooled Aircraft	184.28	4.0%	0.00	184.3
Total.....	4,658.92	100.0%	4,309.45	349.47

⁽¹⁾ GBP equivalent using 9/30/2011 exchange rates.



GUARANTEED EXPOSURES
(£ in Millions)

Revenue Stream Name	30 September 2011		
	Net AADS ⁽¹⁾ Amount	Net Par Outstanding Amount % of Total ⁽²⁾	
Reliance Rail Finance Pty Limited.	58.31	668.39	14.3%
Channel Link Enterprises Finance PLC (CLEF).	22.1	540.1	11.6%
Northern Gas Networks plc.	22.7	505.0	10.8%
Thames Water Utilities Limited.	26.7	444.0	9.5%
Consort Healthcare (Birmingham) Limited.	25.7	397.6	8.5%
Peterborough (Progress Health) plc.	16.1	396.1	8.5%
Consort Healthcare (Mid Yorkshire) Funding plc.	10.3	191.4	4.1%
RASPRO Trust 2005-1.	19.9	184.3	4.0%
Yorkshire Water Services Plc.	7.6	140.3	3.0%
Autoroutes du Sud de la France (ASF).	11.1	131.5	2.8%
BBI (DBCT) Finance Pty Ltd.	12.9	131.0	2.8%
National Grid Gas Plc.	7.1	127.9	2.7%
Anglian Water Company Plc.	7.0	110.7	2.4%
Scottish Hydro-Electric Power Distribution plc.	6.1	110.4	2.4%
Severn Trent Water Limited.	8.7	109.6	2.4%
Dryden X Euro CLO 2005 PLC.	9.6	97.3	2.1%
United Utilities Water Company plc.	5.3	92.6	2.0%
Abruzzo, The Region of.	6.8	84.1	1.8%
AVOCA CLO III plc.	6.4	67.9	1.5%
National Grid Company plc 05.	4.9	50.0	1.1%
Novacare Solution Partnership (Mater Hospital).	4.5	39.4	0.8%
Western Power Distribution (South West) Plc.	17.5	20.3	0.4%
London Pwr Network (EDF Energy Networks (LPN) PLC).	8.7	19.1	0.4%
Total.	326.01	4,658.92	100.0%

⁽¹⁾ Represents the net average annual debt service for which FGIC UK Ltd. would be responsible in the event of a default.

⁽²⁾ Represents percentage of total net par outstanding.



NET DEBT SERVICE AMORTIZATION ⁽¹⁾
(£ in Millions)

	30 September 2011	
	Scheduled Net Debt Service Amortization	Ending Net Debt Service Outstanding
Upfront Business:		
2011.....	18.7	11,506.4
2012.....	45.4	11,461.0
2013.....	54.8	11,406.2
2014.....	52.1	11,354.1
2015.....	52.6	11,301.5
2011-2015.....	223.6	11,301.5
2016-2020.....	255.6	11,045.9
2021-2025.....	401.3	10,644.6
2026-2030.....	251.4	10,393.2
After 2030.....	4,086.7	6,306.5
Subtotal.....	5,218.6	
Installment Business:		
Total.....	6,306.5	-
	11,525.0	

⁽¹⁾ Depicts expected amortization of the total guaranteed portfolio (principal and interest), assuming no refundings or calls through the contractual maturity date as of September 30, 2011.