

Quarterly Operating Supplement

June 30, 1999

FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.



FINANCIAL SECURITY ASSURANCE HOLDINGS LTD.

QUARTERLY OPERATING SUPPLEMENT

2nd Quarter 1999

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Financial Security Assurance Holdings Ltd. Highlights

Financial Key Lines	<i>2nd Qtr 1999</i>	<i>Year to Date 1999</i>	<i>Full Year 1998*</i>
Net Income (Millions)	\$ 23.5	\$ 55.6	\$ 115.4
Stockholders' Equity (Millions)	\$1,082.7	\$1,082.7	\$1,065.4
Return on Average Equity	8.7%	10.3%	12.4%
Policyholders' Leverage Ratio ⁽¹⁾	163:1	163:1	154:1
Loss Ratio ⁽¹⁾	4.3%	4.8%	2.9%
Expense Ratio ⁽¹⁾	44.1%	43.9%	46.4%
Combined Ratio ⁽¹⁾	48.4%	48.7%	49.3%
Effective Tax Rates:			
Net Investment Income	14.5%	14.9%	17.6%
Underwriting and Other Income (Loss)	36.0%	35.9%	35.7%
Total Income	19.9%	22.9%	26.6%

Stockholder Data	<i>2nd Qtr 1999</i>	<i>Year to Date 1999</i>	<i>Full Year 1998*</i>
Net Income Per Share ⁽²⁾	\$ 0.73	\$ 1.74	\$ 3.77
Components of Adjusted Book Value Per Share:			
Book Value Per Share ⁽³⁾	\$ 35.92	\$ 35.92	\$ 35.63
After-tax value of:			
Net deferred premium revenue, net of DAC	6.85	6.85	6.49
Present value of installment premiums	6.97	6.97	5.07
Gain on forward shares	<u>0.37</u>	<u>0.37</u>	<u>0.43</u>
Adjusted Book Value Per Share ⁽³⁾⁽⁴⁾	\$ 50.11	\$ 50.11	\$ 47.62
Common Shares Outstanding (Thousands):			
Actual	30,142	30,142	29,903
Weighted Average	30,165	30,139	28,854
Weighted Average Diluted	31,954	31,900	30,599
Dividends Paid Per Share	\$0.1125	\$0.2250	\$0.4400

Analytical Indices ⁽²⁾	<i>2nd Qtr 1999</i>	<i>Year to Date 1999</i>	<i>Full Year 1998*</i>
Net Income Analysis (Per Common Share):			
Core Net Income	\$ 1.05	\$ 2.02	\$ 3.51
Refundings, Calls and Other Accelerations	<u>0.04</u>	<u>0.11</u>	<u>0.25</u>
Operating Net Income	1.09	2.13	3.76
Realized Capital Gains (Losses)	(0.23)	(0.21)	0.44
Equity Based Compensation	(0.13)	(0.17)	(0.42)
Other	<u> </u>	<u>(0.01)</u>	<u>(0.01)</u>
Net Income	\$ 0.73	\$ 1.74	\$ 3.77

(1) Relates solely to Financial Security Assurance Inc. (FSA). Policyholders' leverage ratio is calculated on a statutory basis, while loss, expense and combined ratios are on a GAAP basis.

(2) Represents diluted earnings per share.

(3) Includes the effect of unrealized (losses) gains in the investment portfolio, which was \$(0.13) and \$1.26 for 1999 and 1998, respectively.

(4) Reflects book value plus the after-tax present value of all deferred premium income and the change in value of forward shares, less deferred expenses.

*1998 results have been restated to show effect of accounting change for forward share purchase agreements.

FSA HOLDINGS WRITES \$117 MILLION OF PV PREMIUMS IN SECOND QUARTER

* * *

SECOND QUARTER OPERATING EPS RISES 18% TO \$1.09

* * *

ADJUSTED BOOK VALUE PER SHARE REACHES \$50.11

New York, New York, July 21, 1999 -- Financial Security Assurance Holdings Ltd. (NYSE:FSA), the holding company for bond insurer Financial Security Assurance Inc. (FSA), announced that its adjusted book value (ABV) reached \$50.11 per share as of June 30, 1999.

KEY RESULTS: SECOND QUARTER 1999

- Adjusted book value per share, with dividends reinvested, grew 18.3% from insurance operations alone over the past 12 months and 17.0% including realized and unrealized capital gains and losses. (Adjusted book value is book value plus the after-tax present value of all deferred premium income, less deferred expenses.)
- FSA produced \$117.0 million of present value (PV) premiums during the quarter, compared with \$107.3 million in the same period of the prior year, an increase of 9.1%.
- Core earnings were \$1.05 per share, an increase of 20.7%.
- Operating net income reached \$1.09 per share, up 18.5%.
- Net income was \$0.73 per share. For comparative purposes, net income for last year's comparable quarter has been restated from \$0.92 to \$0.88 because of the revised accounting explained below under "Accounting for Forward Share

KEY RESULTS: FIRST SIX MONTHS 1999

- FSA produced \$239.1 million of present value (PV) premiums during the half, compared with \$158.0 million in the same period of the prior year, an increase of 51.4%.
- Core earnings were \$2.02 per share, an increase of 20.2%.
- Operating net income reached \$2.13 per share, up 17.7%.
- Net income was \$1.74 per share, compared with the restated result of \$1.69 for the first half of 1998.

"Our strong results reflect the value of our balanced strategic approach to the markets we serve both domestically and internationally," said Robert P. Cochran, chairman and chief executive officer. "Growth in the asset-backed, residential mortgage and international businesses more than offset the reduction in insured municipal volume."

NEW BUSINESS PRODUCTION

In the second quarter, FSA insured securities totaling \$17.1 billion in par. This brought year-to-date par insured to \$30.0 billion, up 14.6%.

FSA insured \$6.8 billion par of U.S. municipal obligations with closing dates in the second quarter, compared with \$10.4 billion in the prior year's comparable period, a decrease of 34.2%. With respect to U.S. primary transactions only, FSA's second quarter municipal par insured was \$6.7 billion, down 33.3% from the comparable period in 1998. Total U.S. municipal PV premiums were \$28.0 million for the quarter, compared with \$68.4 million a year earlier, a decrease of 59.1%. Second quarter municipal PV premiums were lower than in the second quarter of 1998 due to the decline in municipal volume, the comparative effect of FSA's insurance of \$1.4 billion of bonds for the Long Island Power Authority in the second quarter of 1998, and a shift in sector concentration, with a higher percentage of tax-supported issues and a significant reduction in health care activity. The pricing environment remained very competitive for the larger water and sewer and general obligation issues, but the trend in most other sectors was favorable. "We maintained pricing and credit discipline and were able to produce average returns on equity in excess of our target municipal return," said Mr. Cochran.

In the first six months, issuance of new municipal bonds was down 23% compared with the first six months of 1998. Year-to-date, FSA insured \$12.4 billion par of U.S. municipal obligations, 23.5% less than in last year's comparable period. U.S. municipal PV premiums reached \$71.7 million, a decrease of 27.9%. On a sale-date basis, FSA insured approximately 22% of the insured U.S. municipal bonds issued year-to-date.

FSA's second quarter U.S. asset-backed par originated increased to \$7.3 billion from \$6.1 billion, an increase of 19.3%, while the PV premiums generated by U.S. asset-backed business were \$66.6 million, compared with \$31.7 million, an increase of 110.1%. For six months, U.S. asset-backed par volume increased 42.3% to \$12.9 billion and PV premiums grew 118.2% to \$104.3 million. "Structured finance, residential mortgage finance and consumer finance all made strong contributions to the quarter's results," said Mr. Cochran. "The disproportionate increase in PV premiums was driven by a combination of higher premium rates and transactions with longer average lives."

In the international sector, FSA insured \$3.0 billion of par to generate \$22.4 million of PV premiums in the second quarter. Year-to-date, FSA has insured \$4.7 billion of international transactions to generate \$63.1 million of PV premiums.

“Led by the U.K., the European market is developing rapidly,” said Mr. Cochran. “We insured several significant transactions in Europe during the quarter, and we expect both the asset-backed and infrastructure business to continue to grow. The business in Asia has been slower to develop, although we remain optimistic about the long-range potential for the region, especially Japan.”

ANALYSIS OF FINANCIAL RESULTS

CORE NET INCOME. Core net income excludes factors that may cause fluctuations in net income that do not reflect the performance of core operations. These factors are principally capital gains and losses, the effects of refundings and prepayments, the cost of FSA's equity-based compensation programs and other non-operating items.

Second quarter core net income increased 27.5% to \$33.6 million. This reflected a \$14.4 million increase in total core revenues while total core operating expenses plus interest expense, minority interest and losses and loss adjustment expenses increased only \$5.8 million. On a per-share basis, second quarter core net income rose 20.7% to \$1.05 per share.

For the first six months, core net income increased 26.2% to \$64.3 million. On a per-share basis, first half core net income rose 20.2% to \$2.02 per share.

OPERATING NET INCOME. Operating net income (which excludes capital gains or losses, the cost of the equity-based compensation programs, and other non-operating items) grew 25.0% to \$34.9 million for the quarter. On a per-share basis, operating net income grew 18.5% to \$1.09 for the quarter. The contribution from refundings was \$1.4 million, or \$0.04 per share, compared with the contribution of \$1.6 million, or \$0.05 per share, in the second quarter of 1998. Refundings for the second quarter were primarily from municipal transactions.

For the first six months, operating net income was \$68.0 million, or \$2.13 per share, compared with \$54.8 million, or \$1.81 per share, for the same period in the prior year, an increase of 17.7% on a per-share basis. The contribution from refundings was \$3.7 million, or \$0.11 per share, compared with the comparable-period contribution of \$3.8 million, or \$0.13 per share.

REPORTED NET INCOME. Results for comparable periods in 1998 have been restated to reflect the revised accounting described below under “Accounting for Forward Share Purchase Agreements.” Second quarter net income was \$23.5 million, or \$0.73 per share, compared with \$26.7 million, or \$0.88 per share, for the same period in the prior year. After-tax capital losses were \$7.2 million, or \$0.23 per share, compared with after-tax capital gains of \$2.6 million, or \$0.08 per share, for the second quarter of 1998. Capital gains and losses occur in FSA's investment portfolio as a by-product of managing the portfolio for long-term total return. The after-tax cost of the Company's equity-based compensation programs was \$4.2 million, or \$0.13 per share, compared with \$3.8 million, or \$0.12 per share, for the same period of last year.

First half net income was \$55.6 million, or \$1.74 per share, compared with \$51.1 million, or \$1.69 per share, for the same period in the prior year. After-tax capital losses were \$6.6 million, or \$0.21 per share, compared with after-tax capital gains of \$4.3 million, or \$0.14 per share, for the first half of 1998. The after-tax cost of the Company's equity-based compensation programs was \$5.5 million, or \$0.17 per share, compared with \$8.1 million, or \$0.27 per share, for the same period of last year.

GROSS PREMIUMS WRITTEN. Gross premiums written for the second quarter were \$71.9 million, 19.4% lower than FSA's result in the same period of 1998. The decline in gross premiums written is due to the decline in municipal originations, where premiums are usually collected up front rather than in installments. For the first half, gross premiums written were \$150.3 million, an increase of 4.7%.

EARNED PREMIUMS. Core net premiums earned for the second quarter were \$39.9 million, 37.8% higher than FSA's result in the same period of 1998. Total second quarter net premiums earned, including refundings, equaled \$42.8 million, a 31.8% increase. This result includes \$2.8 million of refundings and prepayments, compared with \$3.5 million earned in the same period of last year.

Core net premiums earned for the first half were \$76.3 million, up 35.8%. Total first half net premiums earned, including refundings, rose 30.6% to \$84.1 million.

INVESTMENT PORTFOLIO. Net investment income for the second quarter was \$22.7 million, an increase of 18.1%, due to higher invested balances partially offset by lower yields. Capital losses were \$10.5 million in the second quarter, compared with capital gains of \$3.9 million in the second quarter of 1998. The Company's effective tax rate on investment income (excluding the effects of capital gains and losses) was 14.5% for the second quarter, compared with 17.8% for the same period a year earlier.

EXPENSES AND RESERVES. Core policy acquisition and other operating expenses (total core operating expenses) for the second quarter were \$12.4 million, up from \$9.3 million in the comparable quarter of the prior year. Total core operating

expenses increased due to higher amortization of deferred acquisition costs (DAC) as a result of higher premium earnings and personnel costs. Total operating expenses including the effects of refundings rose to \$13.1 million, or \$2.8 million higher than in the prior year's second quarter. The second quarter core operating expense ratio (core operating expenses divided by core earned premiums) decreased to 31.0% from 32.2% in second quarter 1998.

Losses and loss adjustment expenses were \$1.8 million and \$4.0 million in the second quarter and first half, respectively and \$1.0 million and \$2.1 million in last year's comparable periods, reflecting additions to the general reserve in all periods. At June 30, 1999, FSA's unallocated general reserve totaled \$50.6 million.

ACCOUNTING FOR FORWARD SHARE PURCHASE AGREEMENTS

In May 1996, the Company entered into a forward share purchase agreement with two financial institutions, under which it had the ability to acquire up to 1,750,000 shares of its stock for \$26.50 plus accumulated financing charges. The Company retained the economic interest in 1,000,000 shares and passed both the economic risk and reward in the remaining 750,000 shares on to a group of the Company's employees and directors, who were required to post collateral against the risk of a decline in market value of the shares.

After consulting the Company's independent auditors, the Company accounted for the 1,000,000-share obligation under the "permanent equity" provisions of EITF 96-13, which resulted in no impact on the Company's financial statements until the shares were retired as treasury stock in December 1997. The Company applied the "asset/liability" provisions of EITF 96-13 to account for the 750,000 shares made available to employees and directors, of which 529,122 shares remain outstanding. As the market value of the Company's shares has risen, this accounting treatment resulted in the gain in the forward share agreement being offset against the corresponding liability to the employees and directors, resulting in no net impact on the Company's financial statements until settlement. At settlement, the Company's paid-in surplus would be credited with the tax savings resulting from the transaction. The tax savings occur because the payment to the employees is deductible for federal income tax purposes as compensation expense, but the economic gain from the forward purchase agreement is non-taxable since it arises from a transaction involving the Company's own stock. The Company continues to believe that this accounting most accurately reflects the economics and substance of the transaction.

During a review of the Company's shelf registration statement in April 1999, the Securities and Exchange Commission (SEC) staff advised the Company that, in its opinion, the gain on the forward purchase agreement should not be used to offset the income statement impact of the Company's additional compensation liability. After discussion with the SEC staff, the Company has revised its accounting to recognize the compensation liability as incurred and will recognize the offsetting gain on the forward purchase agreement as an addition to paid-in surplus upon settlement. As a result, the Company is filing an amended 10-K for 1998 and an amended 10-Q for the first quarter of 1999 to incorporate these adjustments. The effect of this revision was to decrease previously reported net income for the period between May 1996 and March 31, 1999 by \$8.5 million (2.6%) and to decrease stockholders' equity as of March 31, 1999 by \$5.6 million (0.5%). This revision had the effect of decreasing net income for the three months ended June 30, 1999 by \$0.7 million and increasing net income for the six months ended June 30, 1999 by \$1.0 million. The revision had no effect on core or operating results.

Since the forward share purchase program's inception, participating employees and directors have enjoyed a benefit of \$14.1 million at an after-tax cost to the Company of \$9.2 million, while the Company has benefited from an after-tax gain of \$14.1 million, resulting in an economic profit to the Company of \$4.9 million. "It is unfortunate that current accounting rules give a misleading view of the economic impact of this transaction on the Company's current financial performance," observed Mr. Cochran. "Nevertheless, we hope that our shareholders will appreciate this transaction's positive impact on shareholder value both by motivating key employees to think like owners, as well as by increasing the after-tax cash flow of the Company."

This press release contains forward-looking statements regarding, among other things, the Company's plans and prospects. Important factors, including general market conditions and the competitive environment, could cause actual results to differ materially from those described in such forward-looking statements. Certain of these factors are described in more detail under the heading "Forward-Looking Statements" in Item 1 of the Company's Annual Report on Form 10-Q for the year ended December 31, 1998. Forward-looking statements in this release are expressly qualified by all such factors. The Company undertakes no obligation to revise or update any forward-looking statements to reflect changes in events or expectations or otherwise.

Financial Security Assurance Holdings Ltd. (the Company), through its wholly owned subsidiary, FSA, guarantees scheduled payments of principal and interest of municipal bonds and asset-backed securities, including residential mortgage-backed securities. FSA's claims-paying ability is rated Triple-A by Fitch IBCA, Inc., Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Japan Rating and Investment Information, Inc. Headquartered in New York, FSA has additional offices in San Francisco and Dallas. It also has a London-based U.K. subsidiary, Financial Security Assurance (U.K.) Limited; a Bermuda-based subsidiary, Financial Security Assurance International Ltd.; and representative offices in Madrid, Singapore, Sydney and Tokyo. Information about the Company is available on the World Wide Web at www.fsa.com.

Municipal New-Issue Market Data ⁽¹⁾

(dollars in billions)

	<i>Par Value</i>		<i>Percent Insured</i>	<i>FSA Market Share</i> ⁽²⁾	
	<i>Issued</i>	<i>Insured</i>		<i>Amount</i>	<i>Percent</i>
2nd Qtr. 1999	\$57.8	\$25.0	43.3%	\$6.3	25.2%
1st	57.9	29.4	50.8%	5.8	19.7%
4th Qtr. 1998	69.8	34.8	49.9%	8.7	25.0%
3rd	65.8	36.6	55.6%	7.0	19.1%
2nd	78.6	38.9	49.5%	9.4	24.2%
1st	71.7	35.0	48.8%	6.9	19.7%
1998	285.9	145.3	50.8%	32.0	22.0%
1997	220.7	107.5	48.7%	16.2	15.1%
1996	185.0	85.7	46.6%	11.2	13.1%
1995	160.3	68.5	42.7%	3.3	4.8%
1994	164.6	61.4	37.3%	2.7	4.4%
1993	291.9	108.0	37.0%	7.5	6.9%
1992	234.6	80.8	34.4%	4.8	5.9%
1991	172.4	51.9	30.1%	2.8	5.4%

(1) FSA estimates based on industry sources, including The Bond Buyer and Securities Data Company. Industry data subject to revision as additional information becomes available.

(2) Share of insured bond market. FSA volume for 1993 through 1999 is based on sales dates, not closing dates, and will not reconcile with other data in this Supplement. Excludes secondary-market and non-U.S. transactions.

Gross Par Value and Premiums Written by FSA

(dollars in millions)

	<i>2nd Quarter</i>		<i>Year-to-Date</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
Municipal New Issue				
Gross Par Value Insured	6,742	10,107	12,217	15,675
Gross Premiums Written				
Up-Front	27.2	53.7	68.3	78.3
Installments ⁽¹⁾	2.6	10.8	4.7	12.9
Total Gross Premiums	29.8	64.5	73.0	91.2
Gross Present Value of Premiums Written⁽²⁾	28.2	68.9	71.5	98.0
Municipal Secondary				
Gross Par Value Insured	106	355	225	959
Gross Premiums Written				
Up-Front	0.3	2.6	0.9	8.1
Installments ⁽¹⁾	0.2	0.3	0.3	0.5
Total Gross Premiums	0.5	2.9	1.2	8.6
Gross Present Value of Premiums Written⁽²⁾	0.3	2.6	0.9	8.1
Asset-Backed				
Gross Par Value Insured	10,299	6,618	17,557	9,552
Gross Premiums Written				
Up-Front	8.3	1.6	8.4	2.1
Installments ⁽¹⁾	33.3	20.3	67.7	41.7
Total Gross Premiums	41.6	21.9	76.1	43.8
Gross Present Value of Premiums Written⁽²⁾	88.5	35.8	166.7	51.9
Total Insurance Written				
Gross Par Value Insured	17,147	17,080	29,999	26,186
Gross Premiums Written				
Up-Front	35.8	57.9	77.6	88.5
Installments ⁽¹⁾	36.1	31.4	72.7	55.1
Total Gross Premiums	71.9	89.3	150.3	143.6
Gross Present Value of Premiums Written⁽²⁾	117.0	107.3	239.1	158.0

(1) Installments are the periodic premium payments received by FSA for business written in current and prior years.

(2) The Company evaluates its business production for a given period by its gross present value (PV) of premiums written. Gross PV premiums written for a particular period includes both (i) the amount of premiums received in such period under all insurance policies in which premiums are payable up front and (ii) the amount of all future premiums estimated to be payable under the Company's installment-based policies issued during such period, discounted to present value. The discount rate for business written in 1999 is 5.93% per annum and in 1998 is 6.31% per annum, equal to the average pre-tax yield on the Company's investment portfolio for the previous three calendar years. Management uses its best estimate of the life of each insurance policy for which premiums are payable in installments when calculating gross PV premiums written. However, the actual period over which installment-based premiums are paid and the total amount paid will vary from management's estimate if the insured obligation remains outstanding for a period that is different from that estimated by management. If the life of an insured obligation is shorter than that estimated, the related gross PV premiums outstanding will be reduced. Conversely, if the life of an insured obligation is longer than that estimated the related gross PV premiums outstanding will be increased.

Insured Portfolio Profile

Par Value

(dollars in millions)

	<i>Insured in 1999</i>				<i>Outstandings as of June 30, 1999</i>	
	<i>Gross Amount</i>	<i>%</i>	<i>Net Amount</i>	<i>%</i>	<i>Net Amount</i>	<i>%</i>
Municipal Obligations						
Domestic						
General obligation bonds	\$ 5,198	41.8	\$ 4,495	47.9	\$ 28,072	38.0
Tax-supported bonds	2,366	19.0	1,722	18.4	16,529	22.4
Municipal utility revenue bonds	2,377	19.1	1,731	18.4	10,980	14.9
Health care revenue bonds	927	7.5	312	3.3	5,977	8.1
Housing revenue bonds	317	2.5	299	3.2	2,237	3.0
Transportation revenue bonds	451	3.6	127	1.4	2,825	3.8
Other municipal bonds	753	6.1	667	7.1	5,797	7.8
Subtotal	12,389	99.6	9,353	99.7	72,417	98.0
International	53	0.4	32	0.3	1,454	2.0
Total municipal obligations	\$ 12,442	100.0	\$ 9,385	100.0	\$ 73,871	100.0
Geographic Distribution						
California	\$ 1,309	10.5	\$ 987	10.5	\$ 11,055	15.0
New York	1,049	8.4	606	6.5	6,372	8.6
Pennsylvania	1,336	10.7	956	10.2	5,522	7.5
Texas	889	7.2	633	6.7	4,665	6.3
Florida	872	7.0	612	6.5	4,677	6.3
New Jersey	469	3.8	442	4.7	3,857	5.2
Illinois	729	5.9	467	5.0	3,555	4.8
Massachusetts	657	5.3	316	3.4	2,348	3.2
Michigan	362	2.9	340	3.6	2,430	3.3
Wisconsin	452	3.6	431	4.6	2,058	2.8
Indiana	215	1.7	204	2.2	1,477	2.0
Minnesota	113	0.9	107	1.1	1,396	1.9
All Other U.S. Jurisdictions	3,937	31.7	3,252	34.7	23,005	31.1
International	53	0.4	32	0.3	1,454	2.0
Total	\$ 12,442	100.0	\$ 9,385	100.0	\$ 73,871	100.0

Asset-Backed Obligations

Domestic

Residential mortgages	\$ 4,160	23.7	\$ 3,470	24.1	\$ 16,687	36.9
Consumer receivables	4,569	26.0	4,169	29.0	13,528	29.9
Government securities	121	0.7	113	0.8	769	1.7
Pooled corporate obligations	3,829	21.8	3,587	25.0	8,022	17.7
Investor-owned utility obligations	-	0.0	-	0.0	559	1.2
Other asset-backed obligations	203	1.2	185	1.3	341	0.7
Subtotal	12,882	73.4	11,524	80.2	39,906	88.1
International	4,675	26.6	2,853	19.8	5,367	11.9
Total asset-backed obligations	\$17,557	100.0	\$14,377	100.0	\$ 45,273	100.0

Distribution of Insured Portfolio by Rating as of June 30, 1999

Rating ⁽¹⁾	Percent of Portfolio
AAA	4.2
AA	16.0
A	51.7
BBB	27.2
Other	<u>0.9</u>
	100.0

(1) Based upon internal FSA ratings.

Asset-Backed Debt Service and Premiums

(dollars in millions)

Debt Service (Principal and Interest)					
<i>Insured Debt Service</i>					
	<i>Gross</i>	<i>Ceded</i>	<i>Net</i>	<i>Portfolio Run Off⁽¹⁾</i>	<i>Ending Net Outstanding</i>
2nd Qtr. 1999	\$13,312	\$2,635	\$10,677	\$(3,225)	\$57,944
1st	8,610	1,360	7,250	(4,428)	50,492
4th Qtr. 1998	11,213	1,399	9,814	(4,225)	47,670
3rd	5,913	1,261	4,652	(3,082)	42,081
2nd	7,614	685	6,929	(3,176)	40,511
1st	3,518	239	3,279	(2,625)	36,758
1998	28,258	3,584	24,674	(13,108)	47,670
1997	23,685	5,557	18,128	(12,120)	36,104
1996	21,659	5,501	16,158	(8,864)	30,096
1995	12,504	1,717	10,787	(5,284)	22,802
1994	7,297	1,569	5,728	(3,486)	17,299

Premiums (GAAP Basis)						
<i>Written Premium</i>						
	<i>Gross</i>	<i>Ceded</i>	<i>Net</i>	<i>Ending Net Unearned Premium</i>	<i>Ending Net PV Premium</i>	<i>Total</i>
2nd Qtr. 1999	\$41.6	\$13.1	\$28.5	\$ 78.0	\$272.4	\$350.4
1st	34.5	9.1	25.4	75.4	212.6	288.0
4th Qtr. 1998	25.3	8.2	17.1	72.2	189.2	261.4
3rd	27.3	9.7	17.6	74.5	155.8	230.3
2nd	21.9	5.2	16.7	74.8	146.3	221.1
1st	21.9	5.4	16.5	74.6	130.7	205.3
1998	96.4	28.5	67.9	72.2	189.2	261.4
1997	106.2	18.5	87.7	73.8	128.5	202.3
1996	80.3	29.2	51.1	43.3	116.2	159.5
1995	47.1	13.4	33.7	41.4	95.1	136.5
1994	38.5	13.0	25.5	40.3	80.5	120.8

(1) Includes decreases due to prepayments and increases due to accretions or higher outstandings under variable programs.

Municipal Debt Service and Premiums

(dollars in millions)

Debt Service (Principal and Interest)					
	<i>Insured Debt Service</i>			<i>Portfolio Run Off⁽¹⁾</i>	<i>Ending Net Outstanding</i>
	<i>Gross</i>	<i>Ceded</i>	<i>Net</i>		
2nd Qtr. 1999	\$11,468	\$2,682	\$8,786	\$(3,028)	\$122,250
1st	9,617	2,877	6,740	(2,573)	116,492
4th Qtr. 1998	16,804	5,824	10,980	(3,807)	112,325
3rd	14,566	3,519	11,047	(1,918)	105,152
2nd	17,997	5,565	12,432	(1,811)	96,023
1st	10,982	4,219	6,763	(2,687)	85,402
1998	60,349	19,127	41,222	(10,223)	112,325
1997	33,194	8,767	24,427	(6,708)	81,326
1996	20,822	4,242	16,580	(5,531)	63,607
1995	9,675	1,699	7,976	16,056	52,558
1994	8,818	2,312	6,506	(4,590)	28,526

Premiums (GAAP Basis)						
	<i>Written Premium</i>			<i>Ending Net Unearned Premium</i>	<i>Ending Net PV Premium</i>	<i>Total</i>
	<i>Gross</i>	<i>Ceded</i>	<i>Net</i>			
2nd Qtr. 1999	\$30.4	\$ 7.1	\$23.3	\$443.0	\$34.2	\$477.2
1st	43.8	19.3	24.5	437.0	43.7	480.7
4th Qtr. 1998	73.4	25.1	48.3	432.4	44.0	476.4
3rd	49.7	12.9	36.8	405.6	42.9	448.5
2nd	67.4	21.9	45.5	382.8	44.2	427.0
1st	32.4	11.0	21.4	353.6	43.3	396.9
1998	222.9	70.9	152.0	432.4	44.0	476.4
1997	130.2	45.0	85.2	348.3	38.5	386.8
1996	96.6	26.7	69.9	316.5	30.9	347.4
1995	63.6	19.7	43.9	288.9	22.4	311.3
1994	67.9	15.7	52.2	172.6	18.0	190.6

(1) Includes decreases due to prepayments and increases due to accretions or higher outstandings under variable programs. 1995 also includes the addition (in millions) of \$19,440 resulting from the merger with Capital Guaranty Corporation.

Asset-Backed Net Debt Service and Premiums
Amortizations and Ending Balances
As of June 30, 1999
(dollars in millions)

Net Debt Service		
	<i>Scheduled Amortization</i>	<i>Outstanding</i>
2nd Qtr. 1999		\$57,944
3rd	\$3,332	54,612
4th	3,685	50,927
2000	10,701	40,226
2001	7,448	32,778
2002	6,145	26,633
2003	4,586	22,047
2004-2008	14,837	7,210
2009-2013	4,147	3,063
2014-2018	1,489	1,574
2019+	1,574	
Total	\$57,944	

Net Premiums				
	<i>Unearned Premiums</i>	<i>Scheduled Premium Earnings</i>		
		<i>From Unearned Premium Amortization</i>	<i>From Installments</i>	<i>Total</i>
2nd Qtr. 1999	\$78.0			
3rd	66.3	\$11.7	\$14.9	\$26.6
4th	61.9	4.4	19.1	23.5
2000	53.9	8.0	65.2	73.2
2001	47.7	6.2	45.2	51.4
2002	42.2	5.5	34.2	39.7
2003	37.3	4.9	27.4	32.3
2004-2008	17.2	20.1	72.5	92.6
2009-2013	4.9	12.3	20.2	32.5
2014-2018	2.0	2.9	7.4	10.3
2019+		2.0	5.5	7.5
Total		\$78.0	\$311.6	\$389.6

**Municipal Net Debt Service and Premiums
Amortizations and Ending Balances
As of June 30, 1999**
(dollars in millions)

Net Debt Service	<i>Scheduled Amortization</i>	<i>Outstanding</i>
2nd Qtr. 1999		\$122,250
3rd	\$1,747	120,503
4th	1,546	118,957
2000	6,676	112,281
2001	6,747	105,534
2002	6,478	99,056
2003	6,483	92,573
2003-2007	31,140	61,433
2008-2012	26,470	34,963
2013-2017	18,587	16,376
2018+	16,376	
Total	\$122,250	

	<i>Unearned Premiums</i>	<i>Scheduled Premium Earnings</i>		
		<i>From Unearned Premium Amortization</i>	<i>From Installments</i>	<i>Total</i>
2nd Qtr. 1999	\$443.0			
3rd	429.8	\$13.2	\$1.2	\$14.4
4th	417.5	12.3	1.3	13.6
2000	372.4	45.1	5.6	50.7
2001	332.1	40.3	4.1	44.4
2002	295.2	36.9	3.5	40.4
2003	261.7	33.5	3.7	37.2
2004-2008	135.3	126.4	17.4	143.8
2009-2013	60.5	74.8	13.1	87.9
2014-2018	21.9	38.6	8.9	47.5
2019+		21.9	6.2	28.1
Total		\$443.0	\$65.0	\$508.0

Financial Security Assurance Holdings Ltd.

Consolidated Statements of Income

(dollars in thousands, except per share data)

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>June 30,</i>		<i>June 30,</i>	
	<i>1999</i>	<i>1998*</i>	<i>1999</i>	<i>1998*</i>
Revenues:				
Net premiums written	\$51,835	\$ 62,121	\$101,745	\$ 100,068
Increase in deferred premium revenue	(9,061)	(29,669)	(17,677)	(35,695)
Premiums earned	42,774	32,452	84,068	64,373
Net investment income	22,736	19,255	44,760	37,938
Net realized gains	(10,454)	3,939	(9,630)	6,672
Other income	94	126	152	356
TOTAL REVENUES	55,150	55,772	119,350	109,339
Expenses:				
Losses and loss adjustment expenses	1,825	1,047	4,000	2,094
Interest expense	4,153	2,408	8,307	4,842
Policy acquisition costs	10,676	8,527	20,593	16,914
Other operating expenses	8,857	7,606	13,377	16,489
TOTAL EXPENSES	25,511	19,588	46,277	40,339
Minority interest and equity earnings	(343)		(928)	
INCOME BEFORE INCOME TAXES	29,296	36,184	72,145	69,000
Provision for income taxes	5,824	9,446	16,516	17,948
NET INCOME	23,472	26,738	55,629	51,052
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during period	(35,254)	4,368	(48,340)	6,787
Less: reclassification adjustment for gains included in net income	7,184	(2,561)	6,648	(4,337)
Other comprehensive income (loss)	(28,070)	1,807	(41,692)	2,450
COMPREHENSIVE INCOME	\$ (4,598)	\$ 28,545	\$ 13,937	\$ 53,502
As based upon net income:				
Basic earnings per common share	\$0.77	\$0.92	\$1.82	\$1.76
Diluted earnings per common share	\$0.73	\$0.88	\$1.74	\$1.69

* - As Restated.

As a result of the Company's restatement relating to its accounting for forward share purchase agreements, net income previously reported for the three and six months ended June 30, 1998 decreased by \$1,311 and \$3,443, respectively.

Financial Security Assurance Holdings Ltd.

Consolidated Balance Sheets

(dollars in thousands, except per share data)

ASSETS	June 30, 1999	December 31, 1998*
Bonds, at market value (amortized cost of \$1,707,243 and \$1,655,042)	\$1,697,581	\$1,708,040
Equity investments at market value (cost of \$62,005 and \$64,292)	63,705	68,243
Short-term investments	112,498	98,554
Total investments	1,873,784	1,874,837
Cash	8,426	3,490
Deferred acquisition costs	195,107	199,559
Prepaid reinsurance premiums	234,477	217,096
Reinsurance recoverable on unpaid losses	1,456	3,907
Receivable for securities sold	22,611	1,655
Other assets	175,537	143,662
TOTAL ASSETS	\$2,511,398	\$2,444,206
LIABILITIES AND MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY:		
Deferred premium revenue	\$ 755,463	\$721,699
Losses and loss adjustment expenses	64,882	63,947
Deferred federal income taxes	68,969	87,254
Ceded reinsurance balances payable	18,471	31,502
Payable for securities purchased	161,477	105,859
Notes payable	230,000	230,000
Minority interest	21,429	20,388
Accrued expenses and other liabilities	107,278	117,421
TOTAL LIABILITIES AND MINORITY INTEREST	\$1,427,969	\$1,378,070
Redeemable preferred stock (3,000,000 shares authorized; 2,000,000 issued and outstanding; par value of \$.01 per share)	\$700	\$700
Common stock (50,000,000 shares authorized; 32,276,301 issued; par value of \$.01 per share).	323	323
Additional paid-in capital - common	740,863	733,442
Accumulated other comprehensive income (loss) (net deferred income tax provision (benefit) of \$(2,161) and \$20,288)	(4,014)	37,678
Accumulated earnings	373,973	325,150
Deferred equity compensation	41,268	43,946
Less treasury stock at cost (2,134,492 and 2,372,839 shares held)	(69,684)	(75,103)
TOTAL SHAREHOLDERS' EQUITY	\$1,082,729	\$1,065,436
TOTAL LIABILITIES AND MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY	\$2,511,398	\$2,444,206

* - As Restated.

As a result of the Company's restatement relating to its accounting for the forward share purchase agreements and to its classification of redeemable preferred stock, shareholders' equity previously reported as of December 31, 1998 has decreased by \$8,000.

Financial Security Assurance Holdings Ltd.

Summary Financial Information

(dollars in thousands, except per share data)

	<i>2nd Quarter</i>		<i>Year to Date</i>	
	<i>1999</i>	<i>1998*</i>	<i>1999</i>	<i>1998*</i>
Share Data				
Net Earnings ⁽¹⁾	\$ 0.73	\$ 0.88	\$ 1.74	\$ 1.69
Book Value ⁽²⁾	35.92	32.11	35.92	32.11
Adjusted Book Value ⁽²⁾⁽³⁾	50.11	43.25	50.11	43.25
Dividends:				
Declared	0.1125	0.1075	0.2250	0.2150
Paid	0.1125	0.1075	0.2250	0.2150
Common Shares Outstanding (Thousands):				
Actual	30,142	28,769	30,142	28,769
Weighted Average	30,165	28,768	30,139	28,765
Weighted Average Diluted	31,954	30,371	31,900	30,297
Effective Tax Rates				
Net Investment Income	14.5%	17.8%	14.9%	18.1%
Underwriting and Other Income (Loss)	36.0%	35.5%	35.9%	35.6%
Total Income	19.9%	26.6%	22.9%	26.7%

Calculation of Average Basic and Diluted Common Shares Outstanding

<i>(shares in 000's)</i>	<i>Three Months Ended June 30,</i>		<i>Six Months Ended June 30,</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
Common shares outstanding	30,165	28,768	30,139	28,765
Shares unissued under employee equity compensation plans	394	236	397	239
Basic common shares outstanding	30,559	29,004	30,536	29,004
Shares contingently issuable under employee equity compensation plans	457	359	457	359
Stock options	24	30	24	29
Convertible preferred stock	914	978	883	905
Diluted common shares outstanding	31,954	30,371	31,900	30,297

(1) Represents diluted earnings per share.

(2) Includes the effect of unrealized gains (losses) on the investment portfolio, which was \$(0.13) and \$0.96 for 1999 and 1998, respectively.

(3) Reflects book value plus the after-tax present value of all deferred premium income and the change in value of forward shares, less deferred expenses.

*1998 results have been restated to show effect of accounting change for forward share purchase agreements.

Financial Security Assurance Inc.
Summary Financial Information
(dollars in thousands, except per share data)

	<i>2nd Quarter</i>		<i>Year to Date</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
GAAP Basis				
Financial Ratios				
Loss Ratio	4.3%	3.2%	4.8%	3.3%
Expense Ratio ⁽¹⁾	44.1	43.7	43.9	43.9
Combined Ratio	48.4	46.9	48.7	47.2
Statutory Basis				
Financial Ratios				
Loss Ratio	0.2	1.3	0.9	(30.2)
Expense Ratio ⁽¹⁾	31.3	16.1	28.1	27.3
Combined Ratio	31.5	17.4	29.0	(2.9)
 Balance Sheet				
	6/30/99		12/31/98	
Contingency Reserve	\$ 415,845		\$ 367,454	
Capital and Surplus	691,791		670,256	
Qualified Statutory Capital	1,107,636		1,037,710	
Unearned premium reserve	621,694		595,900	
Loss and loss adjustment expense reserves	12,842		12,789	
Policyholders' capital and reserves	1,742,172		1,646,399	
Net present value of installment premiums	306,572		233,199	
Third-party capital support	240,000		240,000	
Total claims-paying resources	2,288,744		2,119,598	
Net insurance in force (principal & interest)	\$180,194,318		\$159,995,258	
Policyholders' leverage (risk-to-capital ratio) ⁽²⁾	163:1		154:1	
Claims-paying ratio ⁽³⁾	79:1		75:1	

(1) Underwriting expense ratio is based on net premium earned for GAAP and net premium written for statutory.

(2) Policyholders' leverage ratio is net insurance in force divided by qualified statutory capital.

(3) Claims-paying ratio is net insurance in force divided by claims-paying resources.

Annual Financial and Statistical Data

(dollars in thousands, except per share data)

	<i>Years Ended December 31</i>				
	<i>1998*</i>	<i>1997*</i>	<i>1996*</i>	<i>1995</i>	<i>1994</i>
Income Statement					
Gross premiums written	\$319,266	\$236,391	\$176,965	\$110,742	\$106,449
Net premiums written	219,853	172,878	121,000	77,576	77,757
Net premiums earned	137,927	109,511	90,448	69,347	65,754
Net realized gains (losses)	20,890	11,522	3,189	5,120	(3,773)
Net investment income	78,823	72,085	65,064	48,965	46,592
Total revenues	238,114	202,421	158,998	127,273	109,350
Losses and loss adjustment expenses	3,949	9,156	6,874	21,658 ⁽²⁾	3,024
Minority interest and equity earnings	(844)	-	-	-	-
Policy acquisition and other expenses	76,070	63,717	46,561	30,573	28,036
Income before income taxes	157,251	129,548	105,563	75,042	78,290
Net income	115,356	94,684	78,025	55,038	60,375
Earnings per diluted common share	3.77	3.06	2.52	2.12	2.32
Cash dividends per common share	0.44	0.405	0.35	0.32	0.16
Selected Financial Statistics					
GAAP Basis⁽¹⁾					
Loss ratio (%)	2.9	8.4	7.6	31.2 ⁽²⁾	4.6
Expense ratio (%)	46.4	44.5	42.8	42.2	40.5
Combined ratio (%)	49.3	52.9	50.4	73.4	45.1
SAP Basis(1)					
Loss ratio (%)	(7.4)	5.2	10.6	16.7	28.1
Expense ratio (%)	26.9	27.6	33.7	45.5	59.1
Combined ratio (%)	19.5	32.8	44.3	62.2	87.2
Balance Sheet					
Total investments	\$1,874,837	\$1,431,628	\$1,154,416	\$1,110,742	\$747,176
Prepaid reinsurance premiums	217,096	173,123	151,224	133,548	121,668
Total assets	2,444,206	1,931,164	1,537,742	1,490,262	1,074,316
Unearned premiums	721,699	595,196	511,196	463,897	334,569
Notes payable	230,000	130,000	30,000	30,000	-
Total liabilities	1,378,070	1,055,215	736,482	712,315	528,880
Shareholders' equity	1,065,436	875,249	801,260	777,947	545,436
Book value per common share	35.63	30.44	26.62	24.67	20.92
Selected Financial Statistics⁽¹⁾					
Gross insurance in force	\$216,564,000	\$158,020,000	\$125,432,000	\$99,034,000	\$65,824,000
Net insurance in force	159,995,000	117,430,000	93,704,000	75,360,000	45,825,000
Qualified statutory capital	1,039,710	781,661	675,944	644,653	465,787
Policyholders' leverage ratio	154:1	150:1	139:1	117:1	98:1

(1) These ratios and statistics relate solely to FSA. The GAAP loss ratio is losses and loss adjustment expenses incurred (inclusive of additions to the General Reserve) divided by net premiums earned. The SAP loss ratio is losses and loss adjustment expenses incurred (exclusive of additions to the General Reserve) divided by net premiums earned. The GAAP expense ratio is underwriting and operating expenses divided by net premiums earned. The SAP expense ratio is underwriting and operating expenses divided by net premiums written. The combined ratio on both a GAAP and SAP basis is the sum of the applicable loss and expense ratios.

(2) 1995 losses and loss adjustment expenses and loss ratio include the \$15.4 million increase to the general reserve related to the merger with Capital Guaranty Corporation. Excluding this increase, the loss ratio would have been 9.0%

*1998, 1997 and 1996 results have been restated to show effect of accounting change for forward share purchase agreements.

Effect of Insured Bond Refundings

(dollars in thousands, except per share data)

1999	<i>1st Qtr</i>	<i>2nd Qtr</i>	<i>3rd Qtr</i>	<i>4th Qtr</i>	<i>Year</i>
Earned Premium Recognized	\$4,890	\$2,839			\$7,729
Less:					
Deferred Acquisition Costs Recognized	1,308	755			2,063
Net Effect Before Taxes	3,582	2,084			5,666
Tax Provision	1,254	729			1,983
Net Income Effect	2,328	1,355			3,683
Net Income Per Share Effect⁽¹⁾	\$0.07	\$0.04			\$0.11

1998	<i>1st Qtr</i>	<i>2nd Qtr</i>	<i>3rd Qtr</i>	<i>4th Qtr</i>	<i>Year</i>
Earned Premium Recognized	\$4,693	\$3,481	\$1,013	\$6,626	\$15,813
Less:					
Deferred Acquisition Costs Recognized	1,337	991	269	1,770	4,367
Net Effect Before Taxes	3,356	2,490	744	4,856	11,446
Tax Provision	1,175	871	260	1,700	4,006
Net Income Effect	2,181	1,619	484	3,156	7,440
Net Income Per Share Effect⁽¹⁾	\$0.07	\$0.05	\$0.02	\$0.10	\$0.25

(1) Represents diluted earnings per share effect. Sum of quarters may not equal total for year due to effects of SFAS #128.

Expense Analysis

(dollars in thousands)

1999	<i>1st Qtr</i>	<i>2nd Qtr</i>	<i>3rd Qtr</i>	<i>4th Qtr</i>	<i>Year</i>
Losses and loss adjustment expenses	\$2,175	\$1,825			\$ 4,000
Interest	4,154	4,153			8,307
Amortization of previously deferred underwriting expenses and reinsurance commissions	9,917	10,676			20,593
Gross underwriting and operating expenses	25,315	28,451			53,766
Underwriting expenses deferred	(20,795)	(19,594)			(40,389)
Reinsurance commissions received, net	(18,965)	(5,283)			(24,248)
Reinsurance commissions deferred, net	18,965	5,283			24,248
Other operating expenses	4,520	8,857			13,377
Total expenses	\$20,766	\$25,511			\$46,277

1998*	<i>1st Qtr</i>	<i>2nd Qtr</i>	<i>3rd Qtr</i>	<i>4th Qtr</i>	<i>Year</i>
Losses and loss adjustment expenses	\$1,047	\$1,047	\$1,046	\$ 809	\$ 3,949
Interest	2,434	2,408	2,408	3,375	10,625
Amortization of previously deferred underwriting expenses and reinsurance commissions	8,387	8,527	8,397	10,128	35,439
Gross underwriting and operating expenses	26,840	27,308	23,201	44,228	121,577
Underwriting expenses deferred	(17,957)	(19,701)	(21,789)	(32,124)	(91,571)
Reinsurance commissions received, net	(4,771)	(7,634)	(6,129)	(9,137)	(27,671)
Reinsurance commissions deferred, net	4,771	7,634	6,129	9,137	27,671
Other operating expenses	8,883	7,607	1,412	12,104	30,006
Total expenses	\$20,751	\$19,589	\$13,263	\$26,416	\$80,019

*1998 results have been restated to show effect of accounting change for forward share purchase agreements.

Investment Portfolio

June 30, 1999

(dollars in thousands)

Type of Security	<i>Amortized Cost</i>	<i>Market Value</i>	<i>% of Amortized Cost</i>	<i>Yield⁽¹⁾</i>	<i>Annualized Income⁽²⁾</i>
Long-term bonds:					
Tax-exempt	\$1,049,709	\$1,045,722	57.7%	5.30%	\$55,639
Taxable	657,535	651,860	36.1%	6.11%	40,173
Short-term	112,497	112,497	6.2%	4.97%	3,702
Total⁽³⁾	\$1,819,741	\$1,810,079	100.0%	5.62%	\$99,514
Maturity	<i>Amortized Cost</i>	<i>% of Amortized Cost</i>	Quality Distribution of Long-Term Fixed Income Investments		
Within 1 Year	\$ 114,893	6.3%	AAA	70.9%	
1 to 5 Years	139,438	7.7%	AA	19.7%	
5 to 10 Years	234,577	12.9%	A	8.5%	
10 or more Years	1,018,311	56.0%	BBB	0.5%	
Mortgage-backed Securities	286,216	15.7%	NR	0.4%	
Asset-backed Securities	26,306	1.4%		100.0%	
Total⁽³⁾	\$1,819,741	100.0%			

(1) Estimated yield on assets at end of reporting quarter; short-term investments includes taxable and tax-exempt securities, but excludes cash equivalents of \$38.0 million.

(2) Before taxes if applicable; based on indicated yields.

(3) Excludes stocks of \$62.0 million.

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Common Stock

The common stock of Financial Security Assurance Holdings Ltd. is listed and traded on the New York Stock Exchange.
Ticker symbol: FSA

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