

Rating Report

R.V.I. Guaranty Co., Ltd.

Ratings

Insurer Financial Strength..... A

Subsidiary Ratings

R.V.I. America Insurance Co.

R.V.I. National Insurance Co.

Insurer Financial Strength..... A

Rating Outlook

Stable

Analysts

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■ Summary Rationale

On Aug. 7, 2007, Fitch Ratings downgraded the insurer financial strength (IFS) ratings of R.V.I. Guaranty Co., Ltd. (RVI Guaranty) and its insurance subsidiaries, R.V.I. America Insurance Co. and R.V.I. National Insurance Co. (collectively RVI) to 'A' from 'A+'.

Fitch's rating action primarily reflected the challenging conditions in the residual value insurance market that have resulted in reduced overall premium volume in recent years and influenced the company's decision late in 2006 to stop writing business in the commercial real estate segment, after having been in the business since 1998.

Fitch expects that RVI will experience some volatility in premium volume because when market pricing/risk levels become unattractive, or competitors insure risk levels RVI considers inappropriate, RVI demonstrates its underwriting discipline by withdrawing from the market until acceptable levels return. Nevertheless, market conditions in residual value insurance are such that Fitch expects that it will be difficult for the company to produce the level of diversified premium volume generated prior to 2005.

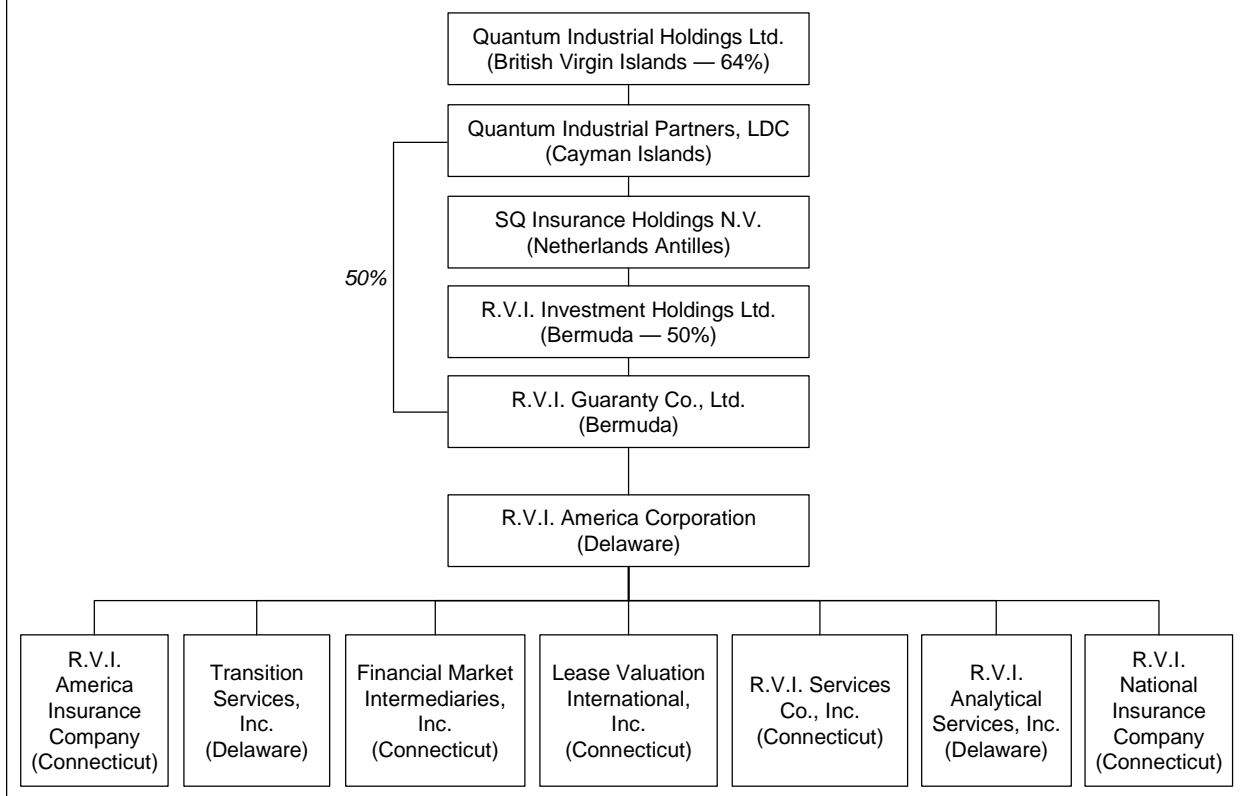
The rating action also reflected an increased level of concentration risk among key insureds that Fitch considers to be high. The top five clients accounted for 62.9% and 62.5% of total gross premiums written in 2006 and 2005, respectively, up from 52.8% in 2004, with the top client at 26.4% and 27.1% in 2006 and 2005, respectively, up from 21.0% in 2004. Through the first six months of 2007, the top five accounted for 64.1%, with the top client at 29.7%. This risk is somewhat mitigated by the fact that most key relationships are long-standing and the clients that make up the top five in any given year may vary, although four of the top five clients were the same the past three full years.

■ Rating Expectations

RVI will continue its dominant market position in the residual value insurance industry as market conditions improve and the company is able to generate profitable premium volume, while maintaining its current favorable level of underwriting profitability. Also, RVI's diversification strategy into new products will continue to be controlled and prudently managed to the company's conservative underwriting and risk-management standards.

RVI will improve the quality and strength of its capital through an initial public offering (IPO) and/or private capital investment before the end of 2007, converting all of its soft capital into hard capital, while continuing to retain a high-quality and experienced management team.

Simplified Organizational Chart



■ **Company Description**

RVI is the largest insurance company in the world that specializes in underwriting and marketing residual value insurance risks worldwide for clients active in asset-based finance and securitization.

RVI is led by RVI Guaranty, a residual value insurance company incorporated in 1989 under the Insurance Act 1978 (Bermuda) and the Bermuda Companies Act of 1981, and is licensed as a class 3 insurer. RVI is subject to U.S. taxation and files a consolidated return.

The company was founded by Howard A. Chickering, most recently president and chief underwriting officer, and Thomas R. Cox, III, formerly executive vice president of real estate, both of whom recently retired. RVI is led by Douglas May, president and chief executive officer, and Robert Crowell, chief operating officer, both of whom held executive positions within CNA before joining RVI in the late 1990s. The company recently hired a new chief financial officer, David Klanica, and a new chief underwriting officer, Mark Zucker.

RVI Guaranty directly owns R.V.I. America Corporation, incorporated in Delaware in 1995, which serves solely as an intermediate holding company to R.V.I. America Insurance Co. (RVI America), R.V.I. National Insurance Company (RVI National), R.V.I. Services Co., Inc. (RVI Services), Transition Services, Inc. (TSI), Financial Market Intermediaries, Inc. (FMI), Lease Valuation International, Inc. (LVI) and R.V.I. Analytical Services, Inc. (RAS). RVI America was founded in 1994 as a specially chartered Connecticut corporation and became a licensed insurance company and commenced operations in 1995. The company was formed to be the primary residual value insurer for business originating in the United States. RVI Guaranty is licensed in Bermuda and cannot directly underwrite insurance in the United States. RVI America is admitted to transact insurance in Connecticut, Ohio, Texas, New York, Pennsylvania, Georgia and Illinois. RVI National was purchased in 2006 as a shell insurance company licensed in 51 jurisdictions.

RVI Services is a licensed insurance broker formed as a Connecticut corporation in 1990.

RVI Guaranty is owned 50% by R.V.I. Investment Holdings Ltd. (RVI Holdings), a wholly owned subsidiary of Quantum Industrial Partners, LDC (QIP) and 50% directly by QIP. QIP is an open-ended investment fund managed by Soros Fund Management, the company founded and chaired by entrepreneur George Soros. QIP purchased RVI in 1993 from US West Financial Services, Inc. Between 1997 and 2005, ownership of RVI Guaranty was split 50/50 between RVI Holdings and Continental Casualty Company (CCC), a wholly owned subsidiary of CNA Financial Corp. (CNA). CNA sold its entire interest in RVI to QIP in December 2005.

Residual value insurance protects the insured by guaranteeing that a properly maintained asset will be worth no less than a specified value at the termination of a lease or financing. RVI's residual value insurance policies are purchased for two basic purposes: asset protection and Financial Accounting Standards Board (FASB) coverage. The former category provides pure asset protection for lessors and financial institutions from an unexpected depreciation of an asset and thus provides a true transfer of economic risk, usually after an amount of self-retained risk by the insured. The latter also primarily provides asset coverage but only at the required levels to meet accounting requirements.

FASB coverage is structured to help lessors—RVI's customers—meet certain criteria related to FAS 13, "Accounting for Leases." Under this rules-based accounting standard, a lease is categorized as either a finance lease or an operating lease based on meeting certain criteria. One such criterion requires finance lease treatment by the lessor if the present value of the minimum lease payments is 90% or more of the fair market value of the leased asset at inception. The accounting rules include a guaranteed residual value as a minimum lease payment in the 90% test for the lessor, even if the guarantee is not by the lessee but by a third party, such as RVI. The result is that the lessor gets finance lease treatment that resembles loan accounting and recognizes income under the interest method over the lease term, versus operating lease accounting where earnings are recorded straight-line over the lease term. In addition, the third-party guarantee enables operating lease treatment by the lessee with off-balance-sheet financing that results in the delay of expense recognition.

In July 2006, the FASB and the International Accounting Standards Board (IASB) voted to put

lease accounting on its formal agenda, potentially revising the standards to be less rules based and more principles based. FASB and IASB are working jointly to amend FAS 13, although any update is not expected to be issued for several years. To the extent that significant changes are made to lease accounting standards that negatively impact RVI's business, the ratings could be lowered.

Fitch believes that RVI takes a very conservative approach to underwriting. Policies are, for the most part, underwritten to achieve *de minimis* losses, net of recoveries. The underwriting process incorporates broad knowledge and expertise in each business sector, thorough due diligence of individual transactions, appropriately conservative discount for insured values with respect to projected market values, and strong contractual framework to support each transaction. The company does not take credit risk in its residual value insurance portfolio.

In addition, RVI only insures assets that historically have fairly predictable resale values over time, low rates of obsolescence, remaining useful lives in excess of lease terms, and identifiable and liquid secondary markets. Assets with a high risk of technological obsolescence are avoided, as well as commodity-related equipment whose values may be closely tied to highly volatile commodity prices. In addition, the underwriting decision assumes zero inflation for all assets insured, such that any increase in asset value as a result of inflation will only serve to benefit RVI.

Policies generally settle in one of two forms. The first is through comparison of the insured value to the value in a publication such as, in the case of passenger vehicles, National Auto Research's *Black Book Official Used Car Market Guide* (i.e., FMV settlement). The second settlement form is by comparison to the proceeds from sale of the asset (proceeds policy).

A claim is paid only if the asset is held to the expiration of the contract. For commercial equipment transactions, a claim is only paid under a proceeds policy if the asset has been adequately maintained and is not purchased by the lessee. For commercial real estate transactions, the lessee is responsible for maintaining the property and RVI would pursue the lessee for a loss caused by a failure to maintain the property. RVI requires a notice of claim generally at least six months to a year in advance of the

R.V.I. Portfolio
(\$ Mil., As of Dec. 31, 2006)

Policy Type	Probable Value	Maximum Liability	Coverage Ratio (x)	Gross Premiums In Force
Passenger Vehicles	10,559	8,870	1.2	101.1
Commercial Equipment	24,661	4,400	5.6	81.8
Real Estate	11,003	2,093	5.3	79.5
Total	46,223	15,364	3.0	262.4

Note: Numbers may not add due to rounding. Source: R.V.I. Guaranty Co., Ltd.

termination date of the financing for assets other than passenger vehicles.

RVI's management and staff have extensive experience with the insured assets, which serves as an important competitive advantage. Underwriters typically have experience in setting residual values and remarketing off-lease assets in the particular asset class they underwrite, averaging more than 19 years of experience in their fields. However, Fitch is concerned that while very knowledgeable, the staff is somewhat lean, with only 59 total employees, and thus exposed to potential disruptions in its business from the loss of key individuals. Given the recent turnover in senior management, Fitch expects that management will focus in the near term on mitigating any such disruptions so as to preserve the long-term success of the business.

RVI has developed comprehensive, asset-specific databases that are critical for performing extensive detailed valuation analysis and underwriting risks on many types of assets. When determining appropriate levels of coverage, the company compares the residual value requested with its careful estimates of projected value and with forecasts of asset values at lease termination prepared by independent third parties.

Products

Up until recently RVI focused on three main asset classes for residual value insurance: passenger vehicles, commercial equipment and commercial real estate. Policies range from short-term passenger vehicles (one to five years) to intermediate-term commercial equipment (10 years), to long-term real estate policies (20-plus years), with an overall average life of about nine years.

In fourth-quarter 2006, the company decided to no longer write any new commercial real estate residual value insurance. While the real estate business helped to provide a more diverse source of revenue, this

decision was based on a particularly soft market that significantly reduced market opportunities. As a result, RVI's revenue base from residual value insurance will be somewhat smaller and less diversified going forward.

The insured portfolio declined as the maximum liability decreased from \$16.1 billion as of Dec. 31, 2005, to \$15.4 billion as of Dec. 31, 2006, with passenger vehicles, commercial equipment and commercial real estate all experiencing declines. The forecasted probable value of the insured assets as of Dec. 31, 2006, was \$46.2 billion, or 3.0 times (x) RVI's maximum liability, up from \$42.3 billion, or 2.6x the maximum liability, as of Dec. 31, 2005. The increase in probable value and coverage ratio was driven by the commercial equipment and real estate segments, partially offset by passenger vehicles. The coverage ratio is useful as a measure of the amount of cushion built into the various asset classes of the insured portfolio, with a higher ratio signifying a greater margin for safety.

Passenger Vehicles

Passenger vehicles represent RVI's largest segment of insurance in force at \$8.9 billion, with about 60% of this coverage for FASB-related business. Clients are primarily banks that have established leasing programs. The forecasted probable value of the assets insured is 1.2x the insured value at December 2006. This segment has the lowest coverage ratio at RVI, because passenger vehicles tend to be the most stable and predictable asset type.

RVI works closely with prominent industry forecasters and compares those forecasts to actual results as one of the steps in developing internal forecasts. The company adjusts its own forecasts of value to reflect the prospective insured's lease portfolio profile and future plans as well as management of its end of term risk. In addition, underwriters are careful to avoid excessive concentration in certain vehicle types and lease

terms. RVI has a strong knowledge of the auto industry, with a large proprietary database, and is the only insurance company that publishes its own residual value guide. The guide is a result of disciplined underwriting that reflects continual updating of the company's forecasts of residual values based on a variety of industry factors for more than 2,500 new and used vehicles for lease terms of 24, 36, 48 and 60 months.

Commercial Equipment

This segment includes, but is not limited to, rail, manufacturing, construction equipment, trucks and trailers, printing presses and aircraft. Clients include participants in asset lease transactions and equipment manufacturers. As of Dec. 31, 2006, the coverage ratio was conservative, at 5.6x the insured value, due to the fact that the majority of the coverage is for FASB business, in which case the insured value is usually well below the estimated future value of the asset, since the lessor is only concerned about meeting the 90% accounting test.

RVI will not take risk on immovable assets, highly specialized equipment or assets with a rapid rate of obsolescence relative to financing term, and will only insure assets that must be returned to the lessor at the end of the lease term. The company underwrites through an analysis of both the specific asset and the transaction requirements using internal market data and third-party appraisals to evaluate the risk, resulting in attachment points below forecast distress or soft market value. Analysis includes surveys of historical market performance and review of in-house databases to ascertain the trading range of an asset.

Commercial Real Estate

RVI had offered coverage for single-tenant properties including retail stores, warehouses, industrial, class "A" offices, budget motels and continuous-care facilities, with almost all coverage for non-FASB business. Clients included developers, equity investors, lenders, real estate investment trusts (REITs) and municipalities. The remaining real estate portfolio is generally diversified across the United States, with no single state accounting for more than 10% of overall policy exposure. The focus is primarily on secondary and tertiary markets. The coverage ratio is conservative, at 5.3x the insured value, due to the fact that real estate tends to be a more volatile, less predictable and less liquid asset class, thus requiring a large cushion for safety.

Other Products

Over the last several years, RVI has been building upon its expertise in asset valuation to develop and offer a broader array of fee-based business and insurance products that meet the needs of companies to transfer risk to third parties and improve the efficiency of financing transactions. This expansion represents both an opportunity for an additional diversified source of revenue and a risk of failure with a potential drain of company time and resources. However, Fitch expects that RVI's diversification strategy into new products will continue to be controlled and prudently managed to the company's conservative underwriting and risk-management standards.

In 2007, RVI started to write fidelity and crime insurance, including financial fidelity, commercial crime and computer crime on both an excess and primary basis. Target clients include banks, capital markets, insurance companies and Fortune 500 commercial companies.

RVI started to underwrite financial guaranty insurance in 2006 as a niche low-risk product. The initial focus is on reinsurance of super AAA CDOs, targeting monoline financial guaranty insurers.

RVI provides residual value analytical services for passenger vehicle portfolios through its subsidiary RAS, formed in 2005. Its targeted clients are leasing companies and car manufacturers.

The company began providing valuation services for equipment and facility leasing transactions through a new subsidiary, LVI, in January 2005. However, in November 2006, the company decided to exit this business.

Target Market

The target market is generally composed of large financial institutions (banks, finance companies and independent lessors), equipment manufacturers participating in asset lease transactions, and intermediaries that structure leveraged leases and asset-backed securitizations.

RVI's business is almost entirely in the United States; however, the company is currently looking at potential opportunities in Europe for its core residual value insurance product.

Distribution is split into approximately 55% of total premiums written through brokers and 45% written directly.

Fitch considers RVI to have a high level of concentration risk, in that the top five clients accounted for 62.9% and 62.5% of total gross premiums written in 2006 and 2005, respectively, up from 52.8% in 2004. The top client accounted for 26.4% and 27.1% in 2006 and 2005, respectively. Through the first six months of 2007, the top five accounted for 64.1%, with the top client at 29.7%. This risk is somewhat mitigated by the fact that most key relationships are long-standing and the clients that make up the top five in any given year may vary (although four of the top five clients were the same the past three full years). However, Fitch considers this level of concentration risk to be high and was a factor in the recent downgrade.

RVI's competition varies within each asset category, and no single competitor provides coverage in all areas, although self-insurance remains one significant source of competition. RVI, as a consistent, stable provider of residual value insurance coverage, has a favorable competitive position in the market.

■ Financial Analysis

Note: RVI converted its consolidated financial statements to U.S. GAAP from Canadian GAAP in 2006 and restated 2005 and 2004 full-year results. Under U.S. GAAP, contracts that settle based in part on a third-party asset valuation index are treated as derivatives, while contracts that are settled only to the proceeds of a sale of the asset are deemed to be insurance contracts. As such, all of the passenger vehicle business, approximately 95% of the commercial equipment business and all of the financial guaranty

Operating Performance — GAAP
(\$ Mil.)

	2006	2005	2004
Total Revenue (Before Realized Gains)	54	63	49
% Change	(14.9)	28.6	N.A.
Pretax Realized Gains	(0)	0	(0)
Interest Expense	1	1	1
Pretax Operating Income	23	45	30
Income Taxes	8	13	9
Discontinued Operations	(1)	(0)	0
Net Income	14	31	21
Return on Assets (%)	7.0	15.0	9.9
Return on Adjusted Capital (%)	4.9	11.7	8.8

N.A. – Not available. Note: U.S. generally accepted accounting principles (GAAP). Source: R.V.I. Guaranty Co., Ltd. consolidated financial statements.

business use derivative accounting (Statement of Financial Accounting Standards 133), while all of the real estate business, all of the fidelity and crime business, and approximately 5% of the commercial equipment business use insurance accounting.

Profitability

RVI's profitability has been favorable, with the company reporting GAAP net income of \$14.2 million in 2006, following \$31.3 million in 2005 and \$20.8 million in 2004. Through the first six months of 2007, net income was \$16.5 million.

Net written premium declined 1% in 2006 to \$39.1 million, following a 42% decline in 2005 to \$40.0 million. The decline in 2005 is tempered by a large retrospectively rated passenger vehicle transaction recorded in 2004 (approximately \$9.8 million). Excluding this transaction that was treated as a deposit premium and was returned to the customer, premium decreased 32%. This follows a 111% increase over the previous three years from sizable growth in both existing and new accounts.

Operating Performance — Statutory Accounting Principles
(\$ Mil.)

	2006	2005	2004	2003	2002
Gross Premium Written	41	42	66	59	45
Net Premium Written	39	40	68	51	42
% Change in Net Premium Written	(1.3)	(41.6)	35.1	21.0	28.7
Premiums Earned	43	41	47	30	23
Net Underwriting Gain	8	(18)	(1)	(1)	(8)
Net Investment Income	11	11	9	9	9
Loss Ratio	26.0	26.0	62.1	57.1	87.0
Expense Ratio	61.0	119.5	26.9	26.9	26.0
Combined Ratio	87.0	145.5	89.0	84.0	113.0
Operating Ratio	61.0	119.5	69.4	54.1	72.6

Note: Statutory accounting principles — Bermuda and United States. Source: R.V.I. Guaranty Co., Ltd., R.V.I. America Insurance Co. and R.V.I. National Insurance Co. statutory financial statements.

Real estate has experienced the most significant drop in volume, declining 82% in 2006 and 79% in 2005 in the face of a particularly soft market, leading to the decision to stop writing business in this segment. Commercial equipment written premium was up 23% in 2006, following a decline of 13% in 2005, as business rebounded with increased volume from existing clients and several new clients. Passenger vehicles has continued to generate renewal business, but at overall reduced volumes with double-digit written premium declines in 2005 and 2006, although with a minimal loss of existing clients and some new accounts written.

Through the first six months of 2007, net written premium declined 23.2% over the comparable prior year period, including a 55% decline for commercial equipment, 9% increase for passenger vehicles and 28% decrease for real estate.

RVI increased its revenue from other fee-based products (excluding LVI) in 2006 to \$2.1 million, up from \$0.5 million in 2005 and \$0.3 million in 2004.

Fitch expects that RVI will experience some volatility in premium volume because when pricing/risk levels in the marketplace move to unattractive levels, or when competitors are willing to insure risk levels RVI considers inappropriate, RVI demonstrates its underwriting discipline by withdrawing from the market until acceptable levels return. Nevertheless, market conditions in residual value insurance are such that Fitch expects that it will be difficult for the company to produce the level of diversified premium volume generated prior to 2005, due to limited profitable opportunities and reduced overall demand in the marketplace.

Net investment income increased slightly in 2006 due to a higher investment yield, partially offset by a decline in the book value of the investment portfolio

Fitch expects RVI's results to continue to be favorable in 2007 and beyond, driven by the company's conservative standards and extensive knowledge of the assets underwritten.

Investments and Liquidity

The majority of RVI's investment portfolio is in investment-grade bonds (71% at Dec. 31, 2006), including municipal bonds (35%), corporate bonds (15%), U.S. government and agencies (4%), mortgage-backed bonds (14%) and asset-backed

Asset Portfolio — GAAP (%)

	2006	2005	2004
Bonds	71.1	86.3	78.5
Preferred Stock	0.0	0.0	0.2
Common Stock	0.0	0.0	0.0
Mortgages	0.0	0.0	0.0
Real Estate	0.0	0.0	0.0
Cash and Short-Term	17.7	2.8	11.6
Bermuda Trust	11.2	10.9	9.7
Other	0.0	0.0	0.0
Total Investments (\$ Mil.)	241	252	258
Investment Yield (%)	4.6	4.2	3.7

Note: U.S. generally accepted accounting principles (GAAP). Source: R.V.I. Guaranty Co., Ltd. consolidated financial statements.

bonds (3%). The remainder of the portfolio consists of cash and cash equivalents (18%), and the fair value of U.S. Treasury interest strips and zero-coupon note of the Bermuda trust (11%).

The Bermuda trust consists of capital furnished to the company by RVI Holdings and includes a promissory note from RVI Holdings, which is backed by collateral, a U.S. Treasury zero-coupon note and U.S. Treasury interest strips. The contractual value of the Bermuda trust is \$51.0 million, which is RVI's beneficial interest as the certificate holder.

The promissory note has no stated maturity, is payable on demand, does not bear interest and represents the outstanding capital commitment to the company by RVI Holdings. The book value of the promissory note is its fair value of \$24.0 million at year-end 2006 (face value at inception of \$37.8 million) and is presented as a deduction to shareholders' equity, as it is considered an outstanding capital commitment.

The legal value of the promissory note is its fair market value and its balance is reduced or increased based on the increase or reduction, respectively, in the market value of the Bermuda trust. The promissory note is collateralized by cash and is guaranteed by QIP.

The U.S Treasury note and interest strips are carried as an investment asset at market value (\$27.0 million at year-end 2006) and the U.S. Treasury principle strip (note) accrues to \$51.0 million over the next 18 years (note matures in 2025). The Bermuda trust investment has received the highest rating of the National Association of Insurance Commissioners (NAIC), NAIC-1.

Liquidity — GAAP
(%)

	2006	2005	2004
Total Investment-Grade Bonds/Total Bonds	100.0	100.0	100.0
Below-Investment-Grade Bonds/Total Bonds	0.0	0.0	0.0
Invested Assets to Adjusted Liabilities*	155.9	252.5	180.7
Cash Flow from Operations (\$ Mil.)	(5)	(3)	18
Cash Flow from Investing (\$ Mil.)	41	(17)	(13)
Cash Flow from Financing (\$ Mil.)	0	(1)	1

*Liabilities adjusted to exclude 75% of unearned revenue reserve.
Note: U.S. generally accepted accounting principles (GAAP).
Source: R.V.I. Guaranty Co., Ltd. consolidated financial statements.

The investment portfolio (other than the Bermuda Trust) is managed by Conning Asset Management in accordance with investment policy guidelines set by the investment committee of RVI's board of directors, with investment performance tracked quarterly to appropriate benchmarks. Permissible assets include cash and equivalents, fixed-income securities rated NAIC 1, and common and preferred stock of U.S. corporations. At Dec. 31, 2006, the average credit quality of the portfolio was 'AA+', with a modified duration of 3.4 years.

Liquidity is very good with a ratio of invested assets to liabilities of 155.9% as of Dec. 31, 2006, down from 252.5% at year-end 2005.

Liquidity has also been supported by positive operating cash flows with almost all premiums collected at policy inception. However, operating cash flow was negative in 2005 and 2006 due to increased claims payments that have more than offset cash flow from new business.

Reserves/Claims

Overall, Fitch believes that reserving is conservative given the high-severity, low-frequency nature of claims. Statutory IBNR is established at approximately 20%

of earned premium. Where applicable, IBNR is increased to reflect ultimate loss ratio estimates higher than 20%. Also, when establishing real estate IBNR reserves, the company segregates risks by category.

Management continuously evaluates the current market value of the insured portfolio to determine whether asset values have declined below the residual value guaranteed in the insurance contract, and if a loss is considered probable, a reserve is then established.

In 2006, RVI purchased two real estate properties, a 28-story office building in downtown Toledo, Ohio, and two connected 19-story office towers in downtown Syracuse, N.Y., assuming the operations and related mortgages on both properties. The purchases were made in order to mitigate potential loss on two residual value insurance policies supporting the financings of the buildings.

Based on an expected loss cash flow analysis, RVI booked an impairment loss in 2006 of \$3.7 million and \$4.5 million on the Toledo (original insured amount of \$32 million) and Syracuse (original insured amount \$27.2 million) properties, respectively. In June 2007, contracts were signed to sell the buildings for a total of \$87 million. The sales closed in August 2007 and will result in a pretax gain.

In April 2007, RVI received a notice of final claim on an 18-story office tower in El Paso, Texas, with a \$20 million policy limit, of which RVI assumes a 50% quota share with the primary reinsurer for \$10 million. In May 2007, RVI and Zurich purchased the property to mitigate any loss. RVI booked an impairment loss in 2007 of \$2.0 million, net of a previous case reserve of \$1.7 million.

In connection with these real estate issues, in February 2007 RVI completed a comprehensive five-month ground up review of the real estate portfolio.

Reserves — Statutory Accounting Principles
(\$ Mil.)

	2006	2005	2004	2003	2002
Loss/Loss Adjustment Expense Reserves	32	35	44	45	28
Reserve Development	1.2	1.3	7.7	3.2	8.8
Reserve Development/Premiums Earned (%)	2.8	3.1	16.3	10.9	38.6
Reserve Development/Policyholder Surplus (%)	0.9	1.2	6.0	2.7	5.9

Note: Statutory accounting principles — Bermuda and United States. Source: R.V.I. Guaranty Co., Ltd., R.V.I. America Insurance Co. and R.V.I. National Insurance Co. statutory financial statements.

The review focused on RVI's biggest exposure—large, single-office properties in secondary and tertiary markets—but also included all other property types. The company utilized third-party experts to provide valuation estimates.

The review did not uncover a systemic problem in the company's portfolio of real estate residual value risk, but it did identify six properties whose insured limits are in excess of current estimates of vacant value, and thus active monitoring is required. RVI carries \$2.9 million in IBNR reserves for these exposures. In addition, a sizable number of properties were found to have deteriorated in value, although they were still at a comfortable margin above the insured limit, but in need of priority surveillance.

RVI is putting in place an experienced team to manage the real estate risk, improve audit and surveillance procedures and perform ongoing oversight of the portfolio as it runs off.

In April 2003, RVI received notification of a passenger vehicle claim for a reporting period—running from April 1, 2002, to March 31, 2003—that was significant enough to require additional reserves. The driving factor behind the claim was greater-than-normal used-car depreciation rates starting in mid-2002 that resulted in a prolonged depression of used-car values beyond that projected as part of the cyclical market lows.

RVI utilizes an econometric loss modeling approach to both analyze RVI's potential loss exposure to its passenger vehicle contracts and to better price new policies going forward. The econometric model uses a database of internal and external historical data to project used-car depreciation rates and ultimate expected asset values at the end of the lease term, for each passenger vehicle insured, as well as the percentage of leases that will reach full term. The model calculates a gain or loss under the contracts for each insured vehicle.

The passenger vehicle losses have been predominately related to one contract for passenger vehicle leases with policy origination years in 1999 and 2000. The gross projected ultimate loss ratio recorded for passenger vehicles insured under this contract with policy origination years in 1999 and 2000 was 281%, which equates to a gross projected ultimate dollar loss amount of \$53.4 million.

RVI responded to the losses by re-underwriting the passenger book of business, increasing pricing and tightening terms and conditions to reduce the amount of risk retained by the company going forward. The company has also taken measures to reduce operating costs. In addition, used-car values have shown significant improvement since mid-to-late 2003, reaching levels in recent years not experienced since mid-2002, before the drop in values began.

Paid losses decreased in 2006 to \$13.7 million from \$20.1 million in 2005 and \$30.3 million in 2004, following only \$0.4 million in 2003 and \$0.1 million in 2002, driven by the claim payments for the passenger vehicles, which are the only significant claims since those in 1995 through 1998, which were related to aircraft policies.

Reinsurance

Fitch's IFS ratings on RVI America and RVI National are based on the explicit operating and balance sheet support provided by RVI Guaranty through reinsurance agreements.

In 1996, RVI Guaranty entered into a quota-share reinsurance treaty with RVI America under which RVI Guaranty reinsures 81.25% of the risks written by RVI America. The agreement also includes a provision to cede amounts greater than 81.25% if the net sum insured exceeds RVI America's single-risk limit of the lesser of \$1.25 million or 10% of policyholders' surplus.

In 2006, RVI Guaranty entered into a quota-share reinsurance treaty under which RVI Guaranty reinsures 85% of risks written by RVI National. The agreement also includes a provision to cede amounts

Reinsurance Recoverables — GAAP (\$ Mil.)

	2006	2005	2004
Paid Losses	0	0	0
Unpaid Losses	0	0	0
Incurred But Not Reported Losses	1	0	1
Prepaid Reinsurance Premium	8	11	13
Total Recoverables	9	11	14
Total Recoverables/ Adjusted Capital (%)	3.2	4.0	5.4
Retention Ratio (%)	96.3	94.3	103.4

Note: U.S. generally accepted accounting principles (GAAP).
Source: R.V.I. Guaranty Co., Ltd. consolidated financial statements.

greater than 85% if the net sum insured exceeds RVI National's single-risk limit of \$1.25 million.

RVI reinsures through quota-share agreements with one major international reinsurance companies, a total of 65% of certain passenger vehicle asset protection policies.

Fidelity and crime business is reinsured through an 80% quota-share treaty with facultative placements for limits exceeding \$20 million.

Capitalization

RVI's capital is strong, albeit nontraditional, as the company has a significant unearned revenue reserve balance and a sizable amount of soft capital in the form of notes from RVI Holdings. RVI is currently considering options to diversify, broaden and strengthen its capital base and expects to convert all of its soft capital into hard capital. These options include an IPO and/or an investment of private equity capital, and are expected to be implemented by the end of 2007.

Fitch includes a portion of RVI's net unearned revenue reserve when measuring the company's true capital position. The large unearned revenue liability results from the fact that policies have an average term of approximately nine years, with the entire premium paid at policy inception in most cases, but earned into income over the life of the policy with no portion of the premium refundable even if coverage ceases. The gross unearned revenue reserve was \$156.0 million (58.8% of total liabilities) as of Dec. 31, 2006, down slightly from \$162.1 million (76.0% of total liabilities) as of Dec. 31, 2005, due to the drop in business written.

RVI's capital stock includes a \$50.7 million fully collateralized demand note from QIP. This capital

Capitalization — GAAP (\$ Mil.)

	2006	2005	2004
Stockholders' Equity	91	78	48
Promissory Notes	75	74	77
Trust Preferred Securities	15	15	15
Plus: 75% of Net Unearned Revenue Reserve	111	113	114
Adjusted Capital	292	281	254

Note: U.S. generally accepted accounting principles (GAAP).
Source: R.V.I. Guaranty Co., Ltd. consolidated financial statements.

replaced a \$50.7 million capital commitment (uncollateralized) from CCC following CNA's sale of RVI to QIP in December 2005. Since the commitment is soft capital in the form of a promissory non-interest-bearing demand note from the parent, the capital stock receivable is presented as a deduction from shareholders' equity.

As discussed earlier in the Investments and Liquidity section, RVI's capital stock also includes \$50 million that originated from QIP's purchase of RVI. The promissory note in the Bermuda trust represents the outstanding capital commitment and is presented as a reduction in capital commitment (\$24.0 million at Dec. 31, 2006) within shareholders' equity.

RVI Guaranty also added \$15 million to capital in December 2002 through the issuance of trust preferred securities.

Fitch believes that RVI's adjusted capital protection is commensurate with the rating profile, especially when taking into account the fact that the company's payment of a claim is only at the end of the policy and only when the insured value is greater than market value at that date.

Capitalization — Statutory Accounting Principles (\$ Mil.)

	2006	2005	2004	2003	2002
Policyholder Surplus	130	102	128	120	149
Net Premium Written/Policyholder Surplus (x)	0.30	0.39	0.53	0.42	0.28
Net Leverage (x)	2.15	2.70	2.57	2.46	1.68
Net Leverage — Adjusted (x)	1.29	1.59	1.68	1.64	1.13
NAIC Risk-Based Capital Ratio (%)*	146	142	145	132	139

*R.V.I. America Insurance Co. only. Note: Statutory accounting principles — Bermuda and United States. NAIC — National Association of Insurance Commissioners. Source: R.V.I. Guaranty Co., Ltd., R.V.I. America Insurance Co. and R.V.I. National Insurance Co. statutory financial statements.

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