

REPORT ON EXAMINATION

OF

MOODY'S ASSURANCE COMPANY INC.

AS OF

DECEMBER 31, 2006

DATE OF REPORT

FEBRUARY 6, 2008

EXAMINER

BERNARD LOTT

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 6, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22689 dated November 1, 2007, attached hereto, I have made an examination into the condition and affairs of the Moody's Assurance Company, Inc. as of December 31, 2006, and respectfully submit the following report thereon.

This examination was conducted at the offices of Aon Insurance Managers (USA) Inc. ("Aon"), the manager of Moody's Assurance Company, Inc., located at 199 Water Street, New York, NY 10038.

Wherever the designation "Company" or "Moody's" appears herein without qualification, it should be understood to refer to Moody's Assurance Company, Inc.

1. SCOPE OF EXAMINATION

The purpose of this examination was to determine whether the Company was operating within its by-laws, was conforming to Article 70 of the New York Insurance Law and was in compliance with its plan of operation as submitted to the New York Insurance Department, hereinafter referred to as the “Department.”

A review of Moody’s operations, from its licensing as a New York State captive on June 14, 2002 to December 31, 2006, was performed. The review included an analysis of the Company’s financial condition, a review of corporate records, and limited tests of various income and disbursement items as deemed necessary. This report is submitted on an “exception” basis. Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company’s independent certified public accountants (“CPA”) to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

The Company was incorporated on May 24, 2002, as a wholly-owned subsidiary of Moody’s Assureco, Inc. Moody’s Assureco, Inc. is wholly-owned by Moody’s Investors Service Inc., which is in turn 100% owned by the ultimate parent, Moody’s Corporation. The Company commenced operating as a captive insurance company under the laws of New York State on June 14, 2002.

A. Articles of Incorporation

The purpose of the Company, as stated in its articles of incorporation, was to form a corporation for the purpose of transacting the kinds of insurance specified in Section 1113 of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

Article I, paragraph 2 of the Company's by-laws states, in pertinent part, the following:

“...The annual meeting of the stockholders entitled to vote shall be held... on a date to be determined by the Board of Directors within six months after the end of each fiscal year ...”

A review of the minutes of the annual stockholders meetings held during the period covered by this examination found that none of the meetings were held within six months after the end of the Company's fiscal year, with the exception of the meeting held in the calendar-year 2003. It is recommended that the Company comply with the provisions of its by-laws and hold its annual stockholders meetings as stated therein or amend the by-laws to reflect the current scheduling of the meetings.

The Company appeared to be operating in conformity with its by-laws in all other material respects.

C. Capital Structure

Moody's was incorporated as a pure captive insurance company. The Company was initially capitalized with a combination of a note receivable and cash totaling \$50,000,000. As of December 31, 2006, the Company maintained contributed surplus of \$250,000 and accumulated earnings of \$562,337,504.

D. Corporate Records

The corporate records reviewed appeared to be substantially accurate and complete in all material respects.

E. Plan of Operation

The Company's business plan states that it will provide the Moody's Corporation (together with its affiliates and subsidiaries) with insurance coverage as permitted by Article 70 of the New York Insurance Law. The business plan stated that it anticipated providing high excess and primary coverages for certain insurance lines. In addition it planned to provide “certain difference in conditions” insurance with respect to the high excess coverage.

F. Reinsurance

The Company does not cede or assume any reinsurance.

G. Management and Control

(i) Management Firm

The Company is managed by Aon, the captive management arm of the Aon Corporation, an insurance consultant licensed by the New York Insurance Department. The manager's duties, pursuant to a "captive service agreement" with Moody's, includes assisting with the compliance with Article 70 of the New York Insurance Law and maintaining books and records in accordance with established accounting principles applicable to the business of insurance. The agreement also states that the manager shall assist in the maintenance of the captive's bank accounts, the preparation of its financial statements and provide administrative assistance in the implementation of any insurance/reinsurance program including:

- Drafting, preparation, review and issuance of policies, reinsurance contracts, certificates of insurance, binders or cover notes;
- Billing and collection of premiums; and
- Payment of claims and other expenses from the funds held in the Company's bank accounts.

(ii) Board of Directors

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members. At December 31, 2006, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael Courtian New York, NY	Vice President- Investment Relations, Moody's Corporation
John J. Goggins Chatham, NJ	Senior Vice President & General Counsel, Moody's Investor Services
Joseph J. McCabe Holmdel, NJ	President, Moody's Assurance Company Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lisa A. Westlake Morristown, NJ	Investor Relations, Moody's Corporation
Christine A. Merkle Flushing, NY	Assistant Vice President – Insurance, Moody's Corporation

The board met four times during the period covered by this examination. A review of the minutes for these meetings indicated that they were generally well attended and that each member had an acceptable record of attendance for all meetings for which they were eligible to attend.

Officers:

The by-laws of the Company state that the officers shall be the President, the Treasurer, the Secretary and such other officers as the board of directors may determine, including, but not limited to, one or more Vice-Presidents.

The following are the officers of the captive as of December 31, 2006:

<u>Name</u>	<u>Title</u>
Joseph J. McCabe	President
Felix Sotomayer	Vice President
Nancy L. Gray	Assistant Secretary
Carlton Charles	Vice President, Treasurer
Jane B. Clark	Secretary
Nicholas Kokis	Assistant Treasurer

H. Certified Public Accountant (“CPA”) and Actuarial Services

The Company was audited by PricewaterhouseCoopers LLP, 1301 Avenue of the Americas, New York, NY 10019, for the years covered by this examination. In addition, IRMG, an Aon Company, provides actuarial services for the Company.

I. Growth of Company

The following schedule sets forth the Company's significant summary financial information for the years covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2002	\$29,021,918	\$44,341,356	\$142,668,146	\$94,341,356
2003	74,476,438	94,009,285	197,142,341	138,833,563
2004	98,607,945	117,855,277	319,149,438	258,229,817
2005	106,717,808	140,980,180	466,340,489	399,209,997
2006	109,200,000	163,160,028	635,925,192	562,587,504

3. FINANCIAL STATEMENTS

A. Balance Sheet

The financial statements of the Company are presented in conformity with generally accepted accounting principles. The financial position of the Company as presented and accepted was audited by Moody's certified public accountant:

BALANCE SHEET AS OF DECEMBER 31, 2006

Assets

Cash	\$ 319,770
Investment income due and accrued	9,588,318
Investment in and Advances to Affiliates	588,430,792
Royalty Receivable	37,496,581
Deferred policy acquisition costs	<u>89,731</u>
Total assets	<u>\$635,925,192</u>

Liabilities, Capital and Surplus

Liabilities

Losses	\$ 0
Loss adjustment expenses	0
Taxes Payable	25,691,955
Unearned premium	45,175,890
Amounts due to Affiliates	2,403,844
Accrued expenses	59,233
Payroll Benefits Payable	<u>6,766</u>
Total liabilities	\$73,337,688

Capital and Surplus

Contributed surplus	\$ 250,000
Surplus (accumulated earnings)	<u>562,337,504</u>
Total capital and surplus	<u>562,587,504</u>
Total liabilities, capital and surplus	<u>\$635,925,192</u>

B. Statement of Income

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006

Underwriting income

Net premiums earned	\$109,200,000
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Underwriting Expense

Net losses incurred	\$	0	
Net loss adjustments expenses incurred		0	
Commissions and brokerage		0	
Other underwriting expenses		<u>216,900</u>	
Total underwriting expenses			<u>216,900</u>
Underwriting profit (loss)			\$108,983,100
Investment income			30,686,303
Other income			114,493,972
Other expenses			<u>(3,147,944)</u>

Income before taxes	251,015,431
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Taxes	<u>87,855,403</u>
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Net income	<u>\$163,160,028</u>
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Changes in Capital and Surplus Account

Capital and surplus at December 31, 2005	\$399,427,476
Net income	<u>163,160,028</u>

Capital and Surplus at December 31, 2006	<u>\$562,587,504</u>
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4. LOSS AND LOSS ADJUSTMENT EXPENSES

Moody's provides high limits coverage to the Moody's Corporation in excess of its underlying primary policies. As of December 31, 2006, Moody's did not report liabilities for loss and loss adjustment expenses. The Company's Statement of Actuarial Opinion ("Opinion"), prepared by Serge Lobonov of IRMG, notes that:

"... [p]resently, there are several claims filed against the parent. However, according to the Company's information, none of those claims is expected to exhaust the primary policy. Also, it is not expected that their aggregate amount will grow over the aggregate limit of the primary policy..."

Based on this information from the Company, the Opinion concludes that Moody's did not meet one of the necessary conditions for establishing a reserve for loss contingencies in FASB No. 5, paragraph 8. FASB No. 5, paragraph 8 states:

"An estimated loss from a loss contingency ... shall be accrued by a charge to income if both of the following conditions are met:

- a. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
- b. The amount of loss can be reasonably estimated."

The Opinion states that the "reasonable possibility" of a loss exceeding the limits of the primary policy was not sufficient to establishing a reserve. It goes on to say that the reserves carried by the Company, met the requirements of the New York State Insurance Law; were computed in accordance with accepted loss reserving standards and principals and made a reasonable provision for all unpaid loss and loss adjustment expense obligations under the terms of its contracts and agreements.

Based on the Opinion, no examination change will be made to the Company's reported reserve for loss and loss adjustment expenses.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing law for the formation and continued operation of captive insurance companies in New York State. A review was performed to test the Company's compliance with Article 70. No material area of non-compliance with Article 70 was found during the course of this examination.

6. ORGANIZATIONAL STRUCTURE

The Company is 100% owned and controlled, through Moody's Assureco Inc., by Moody's Investors Services Inc. ("MIS"). MIS as stated in its December 31, 2006 Form 10-K filing:

"...publishes rating opinions on a broad range of credit obligors and credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. It also publishes investor-oriented credit information, research and economic commentary, including in-depth research on major debt issuers, industry studies, special comments and credit opinion handbooks..."

MIS, in turn is 100% owned by the Moody's Corporation.

7. INSURANCE PROGRAM

The Company provides insurance to its ultimate parent, Moody's Corporation (together with its affiliates and subsidiaries), in excess of varying existing underlying coverages. Coverage is provided on an occurrence basis for varying aggregate limits as detailed in its December 31, 2006 audited financial statement from PricewaterhouseCoopers LLP:

"... [t]he Company provides the following insurance... in excess of varying underlying coverages: Errors & Omissions, Directors & Officers, Employment Practices Liability, Crime Liability, Property Damage/Time Element including Difference in Conditions, Property Damage/Time Element – Terrorism coverage under the Terrorism Risk Insurance Act ("TRIA") including Difference in Conditions. In the event the underlying insurance is no longer in place a \$1 million deductible per occurrence and in the aggregate applies. In addition, subject to a \$1 million deductible per occurrence and in the aggregate, it provides a \$100 million aggregate limit for liability imposed by law or assumed under contract if such loss is not covered under any of the above coverages.

The Company also provides the following coverages on a primary basis up to varying aggregate limits – Reputational Damage, Intellectual Property – Third party only, Property Damage/Time Element – Domestic Terrorism (Non-TRIA), Contractual & Tax Opinion Liability for obligations under the Distribution Agreement entered into with New Dun & Bradstreet effective September 11, 2000, Property Damage/Time Element – Nuclear, Biological and Chemical.

The Company provides up to \$2 billion aggregate limit for amounts for which Moodys becomes liable to pay or which are due Moody's for direct or indirect property losses if such amounts are in excess of any of the amounts in the above two paragraphs.”

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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It is recommended that the Company comply with the provisions of its by-laws and hold its annual stockholders meetings as stated therein or amend the by-laws to reflect the current scheduling of the meetings.

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**Moody's Assurance
Company Inc.
2006 Policy Register**

**DIRECT INSURANCE –
Policy period - 6/1/06 to 7/1/07**

Policy # - 450-1-06IR01

<u>Coverage</u>	Received Regulatory Approval	Limits of Liability All limits are Annual Aggregates	Deductible, S.I.R. or Underlying Retentions	Annual Premium at renewal	Carrier and Participation	Captive's reinsurer	<u>Comments</u>
Coverage A - Excess and Difference In Conditions Insurance for the following coverages detailed in the Schedule Of Underlying Insurance:	10/03		\$1,000,000 Per Occurrence and in the Aggregate Deductible All coverages	\$109,200,000 All coverages	Moody's Assurance Company, Inc. 100%	None	None
A.1 Excess Errors & Omissions, Directors & Officers Liability, Employment Practices Liability and Crime		\$250,000,000	Deductible applies when the policy responds on a primary basis in the event the scheduled underlying insurance is no longer in place.				
A.2 Property Damage/Time Element Difference In Conditions and Excess		\$100,000,000					
A.3 Property Damage/Time Element Terrorism coverage under Terrorism Risk Insurance Extension Act of 2005(TRIEA)		\$100,000,000					
Coverage B - Reputational Damage		\$100,000,000					
Coverage C - Intellectual Property - Third Party Only		\$200,000,000					
Coverage D - Property Damage/Time Element Domestic Terrorism (Non-TRIA)		\$200,000,000					
Coverage E - Tax Opinion Guarantee		\$400,000,000					
Coverage F - Property Damage/Time Element - Nuclear, Biological and Chemical		\$200,000,000					

Coverage G - Excess Liability Umbrella \$100,000,000

Coverage H - Excess Liability - Coverages A through G \$2,000,000,000

Respectfully submitted,

_____/s/_____
Bernard Lott
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

BERNARD LOTT, being duly sworn, deposes and says that the foregoing report submitted to by him is true to the best of his knowledge and belief

_____/s/_____
Bernard Lott

Subscribed and sworn to before me
this _____ day of _____ 2008.

Appointment No. 22689

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Bernard Lott

as proper person to examine into the affairs of the

MOODY'S ASSURANCE COMPANY, INC.

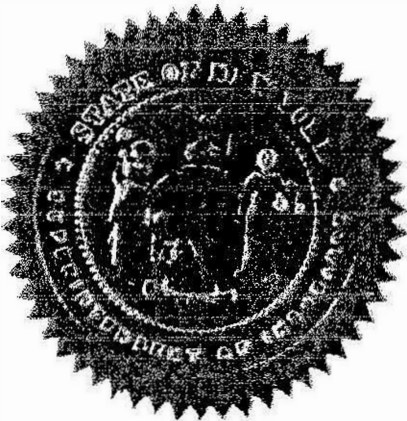
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,

this 1st day of November, 2007



A handwritten signature in cursive script, reading "Eric R. Dinallo", written over a horizontal line.

ERIC R. DINALLO
Superintendent of Insurance