

Assured Guaranty Corp.

Primary Credit Analysts:

Robert E. Green
New York
(1) 212-438-2013
robert_green@
standardandpoors.com

Secondary Credit Analysts:

Richard P. Smith
New York
(1) 212-438-2095
dick_smith@
standardandpoors.com

HOLDING COMPANY

Assured Guaranty, LTD.

DOMICILE

Maryland

LICENSED

None

Rationale

The 'AAA' rating on Assured Guaranty Corp. (AGC) reflects improving direct business results, a strong capital position, and conservative underwriting standards. AGC's revised business plan involves transitioning to a direct financial guarantor from predominately a financial guarantor reinsurer. Direct adjusted gross premiums written in 2005 totaled \$127 million, compared with \$69 million in 2004. In the asset-backed market, which accounted for 80% of 2005 adjusted gross premiums written, progress is also being made with respect to diversifying by asset type and internationally. In the public finance market, in part because of AGC's split credit rating, the company remains a niche player in sectors less favored by the established 'AAA' companies, although progress is being made here as well. The risk profile of the insured portfolio is not significantly different from 'AAA' industry norms. The weighted average capital charge for the public finance book of business is 12.4% as of Dec. 31, 2005, compared with the industry average public finance capital charge of 11.5%. The company's year-end 2005 weighted average asset-backed capital charge for the entire book of business is 1.4%, down from 1.6% a year earlier. The weighted average asset-backed capital charge for the industry as of Dec. 31, 2004, is 1.76%. Total claims-paying resources were \$1.6 billion as of year-end 2005, a roughly 5% decline from

the previous year. The decline is mostly related to the second-quarter 2005 transfer of \$19.4 billion of Financial Security Assurance Inc. (FSA) reinsurance business from AGC to sister reinsurance company Assured Guaranty Re Ltd. (AGRe). The company's margin of safety as of Dec. 31, 2005, falls in a range of 1.5x-1.6x, which is in excess of the Dec. 31, 2004, industry average of 1.4x-1.5x. The margin of safety expresses the relationship of theoretical losses occurring during a severe stress modeling exercise to capital remaining at the end of the modeling period.

Outlook

The stable outlook is based on strong capitalization at the rating level, conservative investment policy, conservative underwriting, and expected improvement in direct production.

Management And Corporate Strategy

AGC had good success in 2005 with respect to the organizational transition associated with holding company AGRe's dual-product strategy. First, using AGC's 'AAA' platform, the company intends to expand the direct financial guarantee business beyond its historical focus on credit derivatives and into the traditional financial guarantee markets. AGC has concurrently stopped accepting new reinsurance business in all but very unusual circumstances. AGC is licensed in 48 states, the District of Columbia, and Puerto Rico. The second aspect of the plan is to direct new reinsurance opportunities, and transfer existing reinsurance business whenever possible, to sister 'AA' reinsurance companies Assured Guaranty Re International Ltd. and Assured Guaranty Re Overseas Ltd., together known as AGRe. The 'AA' platform is more suited to the reinsurance line, as this product can be susceptible to adverse selection, is dependent on a relatively few ceding companies, and is generally less profitable than direct financial guaranty business. AGC plans to cede about one-third of its annual production to AGRe. With a combined statutory capital base of about \$1.5 billion, AGC and AGRe together have reasonable single-risk capacity. In the second half of 2005, the transition was substantially hastened when about \$19.4 billion of reinsurance ceded by FSA to AGC was transferred to AGRe.

CEO Dominic Frederico, formerly vice chairman at ACE Limited, heads the companies that now comprise Assured Guaranty Ltd., and, along with CFO Robert Mills, actively participates in the management of the various subsidiaries. At the AGC level, Michael Schozer, president, formerly a managing director responsible for structured finance and credit derivatives at Ambac Assurance Corp., heads the management team.

The company's product mix was also modified in connection with the company's IPO on April 28, 2004. Previously, Assured Guaranty Ltd. was 100% owned by ACE Limited. Following the IPO, Assured Guaranty Ltd. is now 65% owned by the public and 35% by ACE Limited. In connection with AGC's new strategic focus on direct financial guaranty business, the company eliminated two product lines that had previously been meaningful contributors to its operations but were not consistent with an 'AAA' risk profile. The trade credit business that AGC began to write for its own account beginning in 2002 has been reinsured to a subsidiary of ACE Limited. AGC is no longer underwriting this line. The single-name corporate swap business was put into runoff in April 2003 and the risk has mostly been transferred to outside counterparties.

Industrywide volume is currently constrained by tight credit spreads, a very competitive environment, and investor demand for senior-subordinated structures. However, AGC does not seem to be sacrificing underwriting quality to gain business, as demonstrated by the relationship of average premium rates charged in 2005 compared with the risk of the business. Management recognizes that a poor credit decision, especially at this juncture, could be damaging to the company. In addition to the current difficult spread and competitive environments, AGC's unique, principal challenge remains the fact that another rating agency has assigned the company a financial

strength rating below 'AAA'. This rating split has a negative effect on market acceptance and the trading value of the company's bonds. This is especially true in the public finance market. Having only entered the direct financial guaranty business in 2004, AGC continues to ramp up its public finance capabilities. As of January 2006 the company had 11 full-time professionals in the public finance group, up from seven as of year-end 2004. Kathy Evers is the managing director in charge of AGC's public finance group. Ms. Evers was a senior analyst at Financial Guaranty Insurance Co. (FGIC) on its public finance underwriting team. William Dorante is a managing director in AGC's public finance group, with responsibility for managing the company's West region. Mr. Dorante has been involved in the public finance and financial services markets for more than 15 years, and was also an analyst at FGIC. William Hogan is a managing director with responsibility for the health care, investor-owned utilities, and domestic project finance sectors. He has previously worked at FSA. John Trahan, hired in 2006, is a managing director with responsibility for the East region. He has 18 years of public finance experience, most recently as director at BNP Paribas.

A comprehensive investor outreach program is headed by Patrick Early, previously vice president and manager of municipal bond research for A.G. Edwards and Sons. Patrick reports to Michael Schozer, president of AGC. The investor outreach has resulted in an increase in the number of investors and broker dealers, especially regional dealers, who have approved for investment bonds wrapped by AGC. Nevertheless, the split rating situation limits the company's competitive position in the public finance market. Some institutional investors simply, as a matter of policy, require straight 'AAA' ratings from the two major rating agencies.

In the public finance market, AGC insured-bonds continue to trade "wide" (at higher yields) versus the mature 'AAA' bond insurers. This differential, related to its split rating, makes it difficult for AGC to compete on 'A' or better rated municipal transactions in both the competitive and negotiated markets. Instead, AGC focuses its efforts on negotiated transactions in certain sectors, including health care, private higher education, special assessment/municipal utility districts, and municipal certificates of participation. Most transactions are rated near 'BBB', although some health care system transactions and municipal certificates of participation have been rated 'A' or higher. AGC has differentiated itself with a willingness to underwrite smaller transactions in the \$12 million-\$15 million range and one-off transactions. Management reports that progress has been made in the area of trading value for fixed-rate transactions, where its bonds trade about 15 basis points higher than the mature 'AAA' bond insurers. In comparison, management feels that this spread was about 25 basis points one year ago.

AGC has had better success in the U.S. asset-backed market, where investors are somewhat less rating sensitive. Success has been demonstrated in terms of volume growth, sector diversification and, according to the company, improvement with respect to trading value differentiation. In 2005, 64% of direct transactions were financial guaranty executions, with the balance via credit default swaps. Financial guaranty execution is up from 54% in 2004.

AGC's mortgage and asset-backed group is headed by Stephen Donnarumma, managing director, formerly with FGIC. Paul Livingstone, previously with Ambac Assurance Corp., heads the CDO and structured credit group. The transactions closed in 2005 were a more diverse mix of cash flow CLOs, trust-preferred CDOs, middle-market CLOs, market value CLOs, and super-senior synthetic CDOs. The company's goal in this sector is to focus on primary deals in all categories in order to be among the top monolines in this sector. In the ABS market, AGC was able to broaden its underwritings with transactions closed in the rail car, fleet auto, equipment lease, and future-flow categories. The company also successfully closed its first Regulation XXX transaction and excess SIPC transaction. In the MBS market, the company closed its first prime home equity loan transaction.

The company's international business platform is 'AAA' rated subsidiary Assured Guaranty (UK) Ltd. This company is authorized to write financial guaranty insurance in the U.K. by The Financial Services Authority. The

company has also received authority to conduct business in other European Economic Area jurisdictions on a passported basis. The rating is based on the close operational and financial ties of the company with its parent company Assured Guaranty Corp., including firmwide risk-management regimes, underwriting support provided by the parent, strong financial support in the form of quotA-share and excess-of-loss reinsurance, and a net-worth maintenance agreement. The scope and depth of the parental support have resulted in Assured Guaranty (UK) Ltd. being designated a “core” subsidiary. Marc Bajer joined Assured Guaranty Corp. in September 2005 as the managing director in charge of Assured Guaranty (UK) Ltd. Mr. Bajer was previously global co-head of debt and structured capital markets for Commerzbank AG London.

Negative aspects of the company’s split rating are also strongly felt internationally. Much management emphasis is in the area of relationship development with banks and investors. Targeted sectors include ABS and MBS, structured finance, public finance, project finance, and private finance initiative markets. CDOs are a sector where the company has had good results, however, with \$2 billion of international CDOs closed in 2005. Management looks to build on this momentum by targeting quality managers and new European structures like market value and credit opportunity funds. The company also did its first private finance initiative transaction in the first quarter of 2005.

Governance

Standard & Poor’s has a positive view of Assured Guaranty Ltd.’s corporate governance practices. This is based on the high level of engagement of the board of directors, the relatively small size of the company and its business, and the growing emphasis on risk management on and off the board.

With a manageable 10 members and a relatively small, but growing insured portfolio, Assured Guaranty Ltd.’s board can play a more active monitoring role than most boards in the financial guarantee industry. Moreover, directors’ backgrounds and skills, many of which include direct experience with financial guarantee, make monitoring easier. Further assisting the board in its work, and a real strength of this board, are its committees, which are led by experienced and motivated chairmen. The board has successfully navigated the challenges presented by an IPO in 2004, a change in board leadership, and turnover in its own membership.

Since its IPO, Assured Guaranty Ltd. has taken significant steps to distance itself from its previous parent company (and still its largest owner), ACE Limited. For its part, ACE Limited’s investment in Assured Guaranty Ltd. has become a passive one, with few direct influences on company management, strategy, or direction.

The company’s underwriting and risk-management committee structures were improved in 2005 with the establishment of the risk oversight committee of the board of directors. This committee is charged with reviewing overall underwriting risk-management guidelines and policies. This also includes monitoring risk-based capital adequacy and reserving policy. This board committee supports the committee structure at the AGC level that includes the underwriting committee, the loss-reserve committee, and the portfolio risk-management committee. The portfolio risk committee interfaces with the board and performs such tasks as approving lines of business and setting sector limits.

Business Review

The company made good strides in the area of direct asset-backed production in 2005. Direct adjusted gross premiums written in the U.S. structured finance sector totaled \$74 million in 2005, up from \$51 million in 2004. The company also made good strides in the international structured finance market with \$27.7 million of adjusted gross premiums written in 2005 compared with \$9.0 million in 2004. Total U.S. asset-backed and international structured finance par written in 2005 was \$15.5 billion, a 39% increase over 2004. Some sectors of

the asset-backed market—the CDO market in particular—are less sensitive to the company's split credit rating. The mix of U.S. business insured in 2005 was dominated by the CDO sector, at 66% of par written, followed by the mortgage and home equity sector at 26%. Commercial asset-backed deals accounted for 7% of par insured in 2005. Most of the company's asset-backed international insurance written in 2005 was in the CDO sector. Because of the heavy weighting toward CDOs, the company's domestic weighted average capital charge for the 2005 book of asset-backed business was 0.70%, well below the industry average of 2.30%. This contributed to a profitability index (weighted average premium rate divided by weighted average capital charge) of 16.6% for the 2005 book of domestic asset-backed business, substantially above the 2005 industry average of 8.3%.

Direct public finance adjusted gross premiums written in 2005 totaled \$20 million, up from \$6 million in 2004 and reflecting the improvements the company has made in transitioning from a reinsurer to primary company. About \$947 million of gross public finance par written in 2005 was U.S. direct business, compared with \$195 million in 2004.

Due mostly to the effect of the split rating on market demand, the capital charge for public finance business written in 2005 was 21.5%, about 2.5x as much as the 2005 industry average of 9.1%. The company's position in the market requires it to focus mostly on 'BBB' or 'BBB-' credits in sectors such as higher education, health care, and municipal utilities. Noteworthy, however, and indicative of a reasonable pricing strategy, about the same 2.5x spread exists between AGC's average premium rate for the 2005 book of business of 1.14% compared with industry average of 0.51%. As a result, the AGC profitability index for the 2005 book of public finance business of 5.4% is not too far off the 2005 industry average of 5.6%.

In 2005, some AGC risk-management functions were reorganized. A separate credit risk management group led by Howard Albert, chief risk officer, was established with the responsibility of developing and implementing credit policy and for managing the credit approval process. Separately, a risk-management and surveillance group was created with responsibility for surveillance, risk remediation, and portfolio risk management.

A major development concerning the overall insured book of business in 2005 was the transfer of \$19.1 billion of par ceded by FSA from AGC to sister company AGRe. FSA and AGRe have had a good reinsurance relationship for many years, and the transfer facilitated management's plan to make AGRe the principal reinsurance provider within Assured Guaranty Ltd. Also, to assist the company with respect to a sector concentration, FSA agreed to reassume \$820 million of health care risk that it had previously ceded to AGC. Mostly as a result, total net par outstanding declined to \$52.6 billion as of Dec. 31, 2005, down from \$74.0 billion on Dec. 31, 2004. Of the \$52.6 billion total, 48.9% is direct par and the balance is reinsurance written prior to establishment of AGRe as the group's reinsurance provider. Less than \$200 million of par was reinsured by AGC in 2005, mostly from FSA to accommodate certain single-risk constrained names.

Because of the reinsurance legacy, good acceptance in the structured finance market in lower risk sectors, and somewhat limited public finance production, the risk profile of this portfolio is not significantly different from industry norms. The weighted average capital charge for the public finance book of business is 12.4% as of Dec. 31, 2005, up from 11.4% the prior year due mostly to the transfer of FSA business and the higher risk profile of direct business written in 2005. The year-end 2005 industry average public finance capital charge is 11.5%. The company's year-end 2005 weighted average asset-backed capital charge for the entire book of business is 1.4%, down from 1.6% a year earlier. The large amount of 'AAA' shadow-rated CDOs insured in 2005 contributed to the decline. The weighted average asset-backed capital charge for the industry as of year-end 2004 is 1.76%.

The reinsurance transfer, as well as new business written, has also affected the underlying ratings distribution of the insured portfolio. As of Dec. 31, 2005, 42.1% of the portfolio was shadow rated in the 'AAA' category

compared with 30.7% a year ago. This improvement is due to the large amount of direct CDO business written in the past two years.

AGC's sector mix is somewhat different than that of the overall industry but is expected to trend toward industry norms as the revised business plan is implemented. For example, GO debt, a sector where AGC is currently challenged due to its split rating, accounted for 9.2% of the portfolio compared with the industry average of 21.9%. Alternatively, the U.S. commercial asset-backed sector (including CDOs) comprises 32% of AGC's portfolio compared with 7% for the industry average. The U.S. asset-backed book business comprises the largest component of the insured book at 45.8%; this compares with 25.6% for the industry on average. The percent of underlying ratings in the 'AA' and 'A' categories declined somewhat, to 15.5% and 26.1%, respectively, due to the reinsurance transfer. The 'BBB' category was about the same at 14.7%, and the speculative-grade percent fell to 1.6% as of Dec. 31, 2005, compared with 2.0% one year earlier.

Table 1

Assured Guaranty Corp. Business Statistics					
—Year ended Dec. 31—					
(Mil \$)	2005	2004	2003	2002	2001
Net par exposure	52,659.0	74,001.0	78,399.0	72,259.0	69,185.0
Adjusted Gross Premiums Written*					
U.S. public finance	23.5	56.5	79.5	70.1	58.4
U.S. asset-backed and other	75.1	73.9	89.2	102.9	86.1
U.S. total	98.6	130.3	168.7	173.0	144.5
International public finance	9.9	23.6	11.4	5.4	0.6
International asset-backed and other	27.7	18.5	19.8	7.7	9.1
International total	37.6	42.1	31.2	13.1	9.7
Total adjusted gross premiums written	136.2	172.4	199.9	186.1	154.2
Net premiums written	92.5	59.9	256.5	150.0	87.7
Gross Par Written					
U.S. public finance	1,076.6	3,022.3	4,572.1	7,271.7	7,226.4
U.S. asset-backed and other	12,739.6	12,947.8	7,526.1	9,335.9	7,675.6
U.S. total	13,816.1	15,970.0	12,098.2	16,607.5	14,902.0
International public finance	500.7	1,240.5	660.2	385.0	362.7
International asset-backed and other	2,799.7	596.2	1,853.2	907.2	3,099.2
International total	3,300.4	1,836.8	2,513.4	1,292.3	3,461.9
Total gross par written	17,116.5	17,806.8	14,611.6	17,899.8	18,363.9
Net par written	10,737.0	7,645.5	14,587.0	16,731.5	13,953.0

*Adjusted gross premiums written include up-front and present value of installment premiums and exclude trade credit.

Table 2

Assured Guaranty Corp. Par By Source		
<i>As of Dec. 31, 2005</i>		
<i>(Mil \$)</i>	<i>Gross par in-force</i>	<i>Gross written year</i>
Direct	39,131.0	16,969.0
Ambac Assurance Corp.	7,061.0	0.0
Financial Guaranty Insurance Co.	7,750.0	0.0
Financial Security Assurance Inc.	403.0	131.0
MBIA Insurance Corp.	14,411.0	17.0
Other	124.0	0.0
Total	68,880.0	17,117.0

Table 3

Assured Guaranty Corp. Insurance Portfolio Statistics						
<i>—Year ended Dec. 31—</i>						
<i>(Mil \$)</i>	<i>2005 industry average % of par</i>	<i>2005 % of par</i>	<i>2005 par</i>	<i>2004 par</i>	<i>2003 par</i>	<i>2002 par</i>
Public Finance						
GO	21.9	9.2	4,861.0	9,124.8	10,606.0	10,182.0
Utility	9.7	9.4	4,942.0	9,166.9	11,440.0	10,790.0
Tax-backed	8.8	5.9	3,093.0	8,199.6	8,407.0	7,510.0
Hospitals	4.7	5.0	2,655.0	3,911.8	6,272.0	6,323.0
Transportation	5.4	6.2	3,268.0	5,031.7	5,383.0	5,547.0
Colleges and universities	3.2	1.2	629.0	798.5	882.0	841.0
Investor-owned utilities	1.6	1.8	944.0	1,100.2	1,357.0	1,311.0
Housing	1.8	0.8	396.0	961.5	937.0	878.0
Special revenue	0.6	0.0	0.0	0.0	0.0	0.0
Other	3.3	0.9	476.0	594.4	309.0	140.0
Total	61.2	40.4	21,264.0	38,889.6	45,593.0	43,522.0
Leases contained in above	4.7	3.3	1,763.0	3,514.0	3,902.0	3,717.0
Domestic Asset-Backed and Corporate Finance						
MBS	4.5	9.5	4,980.0	1,943.5	1,695.0	2,855.0
Home equity loan	2.9	0.0	0.0	6,007.6	1,920.0	489.0
Auto loan	1.8	0.7	366.0	959.4	1,395.0	1,667.0
Other consumer asset-backed	1.5	2.6	1,392.0	2,077.9	2,416.0	2,363.0
Commercial asset-backed	7.0	32.0	16,841.0	15,687.5	17,498.0	11,509.0
Bank/financial institutions	0.3	0.1	32.0	57.0	231.0	774.0
Other	7.6	1.0	523.0	841.8	2,078.0	3,295.0
Total	25.6	45.8	24,134.0	27,574.7	27,233.0	22,954.0
International						
Public finance	3.4	4.2	2,236.0	3,041.0	2,336.0	1,872.0
Asset-backed	9.5	8.1	4,250.0	3,815.0	2,208.0	2,375.0

Table 3

Assured Guaranty Corp. Insurance Portfolio Statistics (cont. 'd)						
—Year ended Dec. 31—						
<i>(Mil \$)</i>	<i>2005 industry average % of par</i>	<i>2005 % of par</i>	<i>2005 par</i>	<i>2004 par</i>	<i>2003 par</i>	<i>2002 par</i>
Other	0.4	1.5	776.0	681.2	1,028.0	1,536.0
Total	13.3	13.8	7,261.0	7,537.2	5,572.0	5,783.0
Total net par outstanding	100.0	100.0	52,659.0	74,001.4	78,399.0	72,259.0

Finances

AGC's business and organizational transition has likewise affected the company's statutory balance sheet and financial results. Net premiums earned decreased to \$88.9 million for the year-ended Dec. 31, 2005, compared with \$120.6 million at year-end 2004. The decline was mostly due the transfer of FSA-reinsured business to AGRe as well as a decline in the amount of other reinsurance written and earned. Earned premium was considerably higher in 2003 at \$159 million due to the company's participation in the trade-credit reinsurance business; AGC exited that line of business in 2004. Losses and loss-adjustment expense was \$16.2 million in 2005 compared with a recovery of \$10.1 million in 2004. Most of the loss reserving was due to a reinsured EETC transaction. The balance of the reserve was likewise reinsurance-related. The company had a loss ratio of 18.2% in 2005. However, the loss reserve is not really comparable with prior-year results due to the trade-credit line, which was a "for-loss" business. AGC's loss ratio is only slightly above the 12% industry average for 2005. Also, because of the FSA reinsurance transfer and the related returned ceding commission, underwriting expenses totaled \$17.3 million in 2005 compared with \$64.0 million in 2004. Investment income for 2005 was \$50.7 million, a 3.2% decline compared with 2004. The lower investment income, offset somewhat by positive cash flow from operations and slightly higher interest rates, was due to the FSA reinsurance transfer-related decline in the unearned premium reserve to \$233.8 million as of year-end 2005 compared with \$405.8 million a year earlier. Statutory net income for the company in 2005 was \$100.9 million, about flat with the prior year. Return on average statutory capital for the company was 12.5%.

Cash and invested assets totaled \$1.1 billion as of Dec. 31, 2005, down from \$1.2 billion one year earlier. BlackRock became AGC's portfolio manager in January 2005. Key investment objectives in the context of preserving the company's 'AAA' rating are to maximize after-tax book income while generating a competitive total rate of return and to maintain sufficient liquidity to cover unexpected, stressful losses. Among the investment guidelines is a requirement that all bonds have a minimum rating of 'A'. There are sector limits for ABS, MBS, and corporate bonds. For the tax-exempt portfolio, to manage investment risk in relation to insured portfolio risk, health care issues are not permitted unless rated 'AAA'. There are other limits tied to insured portfolio concentrations. Currently, the average rating on the fixed-income portfolio is 'AA+' and the average duration is 5.1 years. About 48% of the tax-exempt portfolio consists of bonds guaranteed by monoline bond insurers. AGC, however, does not invest in its own wrapped bonds.

Table 4

Assured Guaranty Corp. Financial Statistics					
—Year ended Dec. 31—					
<i>(Mil \$)</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Insurance Company*					
Total assets	1,140.7	1,278.2	1,207.8	1,042.7	948.8
Cash + invested assets	1,086.3	1,200.8	1,155.4	978.8	906.2
Unearned premiums	233.8	405.8	466.7	369.9	351.5
Statutory capital	854.8	755.1	655.6	594.0	557.2
Net premiums earned	88.9	120.6	159.0	104.9	66.4
Losses and LAE	16.2	(10.1)	41.2	37.1	12.2
Underwriting expense	(17.3)	64.0	82.0	56.5	44.6
Investment income including gains	50.7	52.4	49.4	51.1	49.4
Net income	100.9	103.2	66.6	46.2	44.9
Loss ratio (%)	18.2	(8.4)	25.9	35.4	18.4
Holding Company (Assured Guaranty Ltd.)§					
Total assets	2,677.0	2,694.0	49,552.8	43,450.9	37,186.8
Stockholders' equity	1,662.0	1,527.6	8,834.8	6,388.7	6,106.7
Net income	188.0	182.8	1,417.5	76.5	(146.4)
Debt/capitalization (%)	10.6	11.4	21.2	26.1	30.2
Return on average equity (%)	12.4	10.1	18.2	1.2	(2.5)

*Statutory basis of accounting. †(Net earned premiums - underwriting expenses & losses)/net earned premiums. §ACE Limited was the holding company from 1999-2003.

Capitalization

Total claims-paying resources were \$1.6 billion as of year-end 2005, a roughly 5% decline from the previous year. The decline is mostly related to the second-quarter 2005 transfer of FSA reinsurance business from AGC to AGRe. Within this total, statutory capital for the company increased to \$855 million as of Dec. 31, 2005, a 13.2% increase from the prior year due to the generation of \$100 million of net income. However, both the unearned premium reserve and the present value of annual premium accounts declined due to the transfer of the FSA book of business. The unearned premium reserve as of Dec. 31, 2005, was \$234 million, down from \$406 million a year earlier. The present value of annual premiums at year-end 2005 was \$254 million, down from \$268 million at year-end 2004.

The company's other claims-paying resource, unchanged from last year, is a \$200 million contingent preferred stock facility called Woodbourne Pass Through Trust Securities, which issued pass-through trust securities in March 2005 and invested the proceeds in a portfolio of short-term, highly rated assets that are managed to 'AAA' criteria. The custodial trusts have entered into agreements that allow AGC to put its preferred stock to the trusts, at which time holders of the trust securities will become holders of AGC preferred stock. The trusts are rated 'A+', which reflects the rating that would be applied to preferred stock of AGC. The put option would likely be exercised only in a severe claims-paying environment.

With respect to theoretical losses in the Standard & Poor's capital model, theoretical losses were higher than last year due to the expectation of increased capital charges for both the asset-backed and public finance sectors.

The company's margin of safety as of Dec. 31, 2005, falls in a range of 1.5x-1.6x, which is down from the previous year but in excess of the Dec. 31, 2004, industry average of 1.4x-1.5x. The margin of safety expresses the relationship of theoretical losses occurring during the modeling exercise to capital remaining at the end of the modeling period. AGC's reliance on soft capital (claims paid by third parties) is above the industry norm at about 30.6%. However, because most of this business has been, or will be, ceded to sister company AGRe as part of an overall strategic relationship, the obligations of AGRe are viewed as more secure than a typical third-party relationship.

Liquidity for AGC is measured by comparing cash and discounted investments that are available for reverse repurchase agreements against the largest single use of funds in each of the company's various business or risk sectors. For AGC, this results in an acceptable ratio of 1.67x. The liquidity margin is 4.6x.

Table 5

Assured Guaranty Corp. Capital Statistics					
	— Year ended Dec. 31 —				
(Mil \$)	2005	2004	2003	2002	2001
Portfolio Risk					
Municipal insurance weighted average capital charge (% of average annual debt service)	12.4	11.4	10.6	10.5	10.9
Asset-backed capital charge (% of par)	1.4	1.6	1.7	2.2	3.0
Claims-Paying Resources					
Statutory capital	854.8	755.1	655.6	594.0	557.2
Letters/lines of credit	0.0	0.0	175.0	175.0	150.0
Contingent preferred security	200.0	200.0	0.0	0.0	0.0
Stop-loss treaty*	80.0	80.0	80.0	240.0	300.0
Unearned premiums	233.8	405.8	466.7	369.9	351.5
Present value of annual premiums	254.0	267.8	293.3	197.2	113.7
Total	1622.6	1,708.7	1,670.6	1,576.0	1,472.4
Capital Adequacy					
Capital remaining at end of depression test	500-550	600-650	350-400	500-550	350-400
Margin of safety (x)	1.5-1.6	1.7-1.8	1.3-1.4	1.5-1.6	1.4-1.5
Reliance on soft capital (%)	30.6	28.5	19.4	8.0	19.8

*Expires in 2008; no capital modeling credit given.

Table 6

Assured Guaranty Corp. Liquidity Analysis:		
	<i>Haircut (%)</i>	<i>Amount (mil \$)</i>
<i>Assets/Resources as of Dec. 31, 2005</i>		
Cash and short-term investments	0.0	56.3
Treasury and government agency fixed-income securities	10.0	41.6
Corporate and ABS/MBS bonds	50.0	189.1
Bank lines of credit	0.0	200.0
Other	0.0	0.0
Total		487.5
Adjusted cash totals after haircut		388.5
Municipal bonds (informational/back-up only)		762.1
<i>Potential Uses (Occurring in the Full Year 2006)</i>		
Largest net total payments in 2006 associated with a municipal obligor default		67.2
Largest net bullet maturity default (potentially includes IOUs, international, or "guaranteed" maturity bonds)		25.0
Largest debt service reserve draw		40.0
90 days of payments associated with the largest servicer default		96.6
Largest financial service obligations, such as largest unscheduled draw on a municipal investment contract		0.0
Largest individual "single name" credit default swap or single name in a defaulted synthetic structure		0.0
Holding company debt and dividend servicing needs		4.5
Other		0.0
Total usage		233.3
Net (assets - usage)		104.1
Liquidity ratio (x)		1.7

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2006 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280; or by e-mail to: research_request@standardandpoors.com.