

## Fitch Affirms AGC's 'AAA' IFS Rating

Fitch Ratings-New York-23 November 2005: Fitch Ratings affirms the 'AAA' insurer financial strength (IFS) ratings assigned to Assured Guaranty Corp. (AGC) and Assured Guaranty (UK) Ltd.(AG UK), as well as the 'AA' IFS ratings assigned to Assured Guaranty Re Ltd. (AG Re), Assured Guaranty Re Overseas Ltd., and Assured Guaranty Re Mortgage Insurance Company. The Rating Outlook for all ratings is Stable.

AGC's 'AAA' IFS rating reflects improvements in the company's risk profile compared to prior years. The improvement stems from the company's restructuring, following the April 2004 initial public offering (IPO) of 65% of the common shares of former 100% owner ACE Ltd. In conjunction with the IPO, AGC and affiliate AG Re exited various business lines not traditionally associated with highly rated financial guarantors. Subsequently, AGC has focused on underwriting high-credit quality business in the primary financial guaranty and credit default swap (CDS) markets while AG Re focuses on providing reinsurance to both AGC and unaffiliated guarantors.

Given AGC's history as a reinsurer, however, the company's existing insured portfolio tends to be less diversified than the four largest 'AAA' primary market competitors, with a higher concentration of below investment grade transactions. AGC has transferred some of its higher-risk insured business to AG Re, including some health care, all of its layered and first-loss reinsurance, and single-name credit default swaps (the latter subsequently fully novated by AG Re). However, Fitch is concerned by potential indirect exposure borne by AGC to the higher risks associated with AG Re's 'AA' reinsurance business model, due to the affiliate relationship of the two companies.

As of June 30, 2005, AGC maintained \$821 million of qualified statutory capital to support its business. When factoring in the \$655 million of capital at AG Re, the combined company had approximately \$1.48 billion in statutory capital. AGC's capital base is further supported by the second-quarter issuance of \$200 million of custodial trusts, to which AGC, at its option, can raise additional capital by putting up to \$200 million of its perpetual preferred stock to the trusts. In addition, AGC currently maintains \$175 million of bank soft-capital facilities.

Prior to the IPO, most of AGC's direct business was underwritten in CDS form, which Fitch views as having greater liquidity risk than financial guaranty insurance. AGC is endeavoring to emphasize financial guaranty execution; however, due in part to competitive industry conditions, it remains relatively reliant on its CDS platform, which accounts for approximately 40% of direct U.S. structured finance par written since the April 2004 spin-off. Fitch anticipates that as a relatively new entrant to the primary financial guaranty market, AGC, in establishing its trading value, will likely experience a trading disparity relative to its more established 'AAA' competitors for some period of time and may need to be somewhat competitive on pricing. Unlike a typical start-up company, AGC is generating internal capital through its legacy business, but AGC's returns are still expected to trail its established competitors over the intermediate term due to the impact of lower-yielding reinsurance business and current tight credit spreads.

The following ratings are affirmed by Fitch with a Stable Outlook:

Assured Guaranty Corp.  
Assured Guaranty (UK) Ltd.  
--Insurer financial strength 'AAA'.

Assured Guaranty Re Ltd.  
Assured Guaranty Re Overseas Ltd.  
Assured Guaranty Re Mortgage Insurance Company  
--Insurer financial strength 'AA'.

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