

### Ratings

#### Insurer Financial Strength

Assured Guaranty Corp. ....	AAA
Assured Guaranty (UK) Ltd. ....	AAA

#### Related Ratings

Assured Guaranty Re Ltd. ....	AA
Assured Guaranty Re Overseas Ltd. ....	AA
Assured Guaranty Re Mortgage Insurance Company . . . . .	AA

Rating Outlook..... Stable

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### ■ Summary

Assured Guaranty Corp.'s (AGC) 'AAA' insurer financial strength (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 Assured Guaranty Re Ltd. (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 its more established primary market competitors, with a higher percentage of below investment grade transactions. AGC has transferred some of its higher-risk insured business to AG Re, including some health care, and all of its layered and first-loss reinsurance and single-name CDSs (the latter subsequently fully novated by AG Re). However, Fitch is concerned about 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 recent 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.

In prior years, 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 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 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 its returns are still expected to trail its established competitors over the intermediate term due to the effect of lower-yielding reinsurance business and current tight credit spreads.

#### Recent Developments

- Based on information dated Nov. 3, 2005, AGC has \$130 million of net par in force in areas affected heavily by Hurricane Katrina, of which \$54 million is in New Orleans, La.
- April 2005, AGC assigned 'AAA' rating by Fitch.
- June 2005, AGC, AG Re (IFS 'AA') and Financial Security Assurance Inc. (FSA, IFS 'AAA') agreed to transfer from AGC to AG Re approximately \$21 billion of par originally ceded by FSA and for FSA to re-assume \$820 million of health care par from AG Re.
- April 2005, AGC issued \$200 million of custodial trusts through Woodbourne Capital Trusts I-IV.

## Claims-Paying Resources

(\$ Mil. As of Dec. 31)

	6/30/2005	2004	2003	2002	2001	2000
Contingency Reserve	543	518	400	307	223	181
Capital and Surplus	277	237	256	287	334	323
Qualified Statutory Capital (QSC)	821	755	656	594	557	504
Unearned Premium Reserve	227	406	467	370	352	330
Loss and Loss-Adjustment Expense Reserve	12	32	55	41	21	15
Policyholders' Reserves	1,059	1,193	1,177	1,005	929	849
Present Value Installment Premiums	233	268	293	220	149	89
Soft Capital Facilities	455	255	255	415	450	250
Total Claims-Paying Resources (CPR)	1,747	1,716	1,726	1,640	1,528	1,188
Net Par in Force	52,051	74,001	78,399	72,259	69,178	56,556
Net Par/Qualified Statutory Capital (:1)	63.4	98.0	119.6	121.7	124.2	112.2
Net Par/Claims-Paying Resources (:1)	29.8	43.1	45.4	44.1	45.3	47.6

Note: Numbers may not add due to rounding.

### Strengths

- High quality of the company's insured portfolio.
- Improved risk profile and more defined strategic focus compared to prior years.
- Sufficient excess capital to support current and future business.
- Earnings from existing business.
- Upgraded corporate governance as a public company.
- Full-service business platform.

### Concerns

- Highly competitive financial guaranty business environment.
- Unproven track record and trading disparity as a primary company.
- Below-average earning prospects over the intermediate term.
- Less diversified insured portfolio, with a higher percentage of below investment grade transactions and higher liquidity risk, all relative to AGC's more established 'AAA' competitors.
- Indirect exposure to risk associated with 'AA' affiliate AG Re.

### Company Overview

#### Assured Guaranty Ltd.

On April 28, 2004, subsidiaries of ACE Ltd. completed an IPO of 65% of their common shares of Assured Guaranty Ltd. (AGL). Through its operating subsidiaries, AGL provides credit enhancement products to the public finance, structured finance and mortgage markets. Fitch believes that the reorganization accompanying the IPO has resulted in significantly improved corporate governance for the

organization by improving the business focus and strategic direction of the operating subsidiaries; reorganizing staff in accordance with the new strategic direction, consolidating overlapping managerial responsibilities and business functions; improved management oversight including the creation of a Portfolio Risk Management Committee; and oversight by a board of directors focused exclusively on financial guaranty activities.

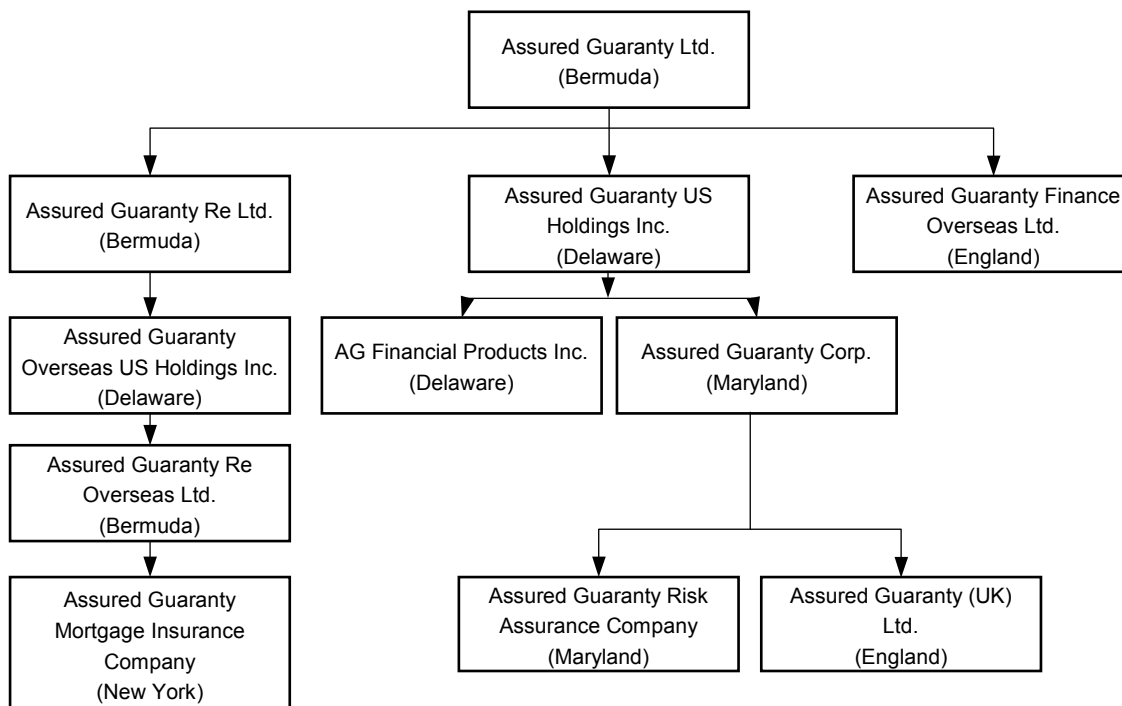
#### Assured Guaranty Corp.

AGC is a Maryland-based financial guaranty insurance company, 100% owned by AGL. AGC's business platform has been redefined in order to focus on writing direct financial guaranty insurance and ceding 25%–50% of its business under a quota-share treaty to AG Re for capital relief and risk transfer purposes. As of June 30, 2005, AGC's net par insured portfolio totaled \$52.1 billion.

#### Assured Guaranty (UK) Ltd.

Assured Guaranty (UK) Ltd. (AG UK, Fitch IFS 'AAA') has been established to provide financial guaranty insurance in the United Kingdom and other European countries for public finance, structured finance, and other project and infrastructure transactions. AG UK's rating is based on its 100% ownership by AGC as well as the strong support agreements provided by AGC (see Reinsurance and Soft Capital section below for further detail). All transactions underwritten by AG UK will also be subject to the approval of AGC's senior management. Additionally, AG UK's underwriting, risk management and surveillance functions are designed to mirror those employed by AGC. AG UK currently has capital of GBP8.3 million, increased from

## Organization Chart



GBP500,000 in July 2004, and currently employs seven professionals.

### Assured Guaranty Re Ltd.

Assured Guaranty Re Ltd. (AG Re) is a Bermuda-based financial guaranty reinsurance company, 100% owned by AGL. AG Re provides tax-advantaged capital relief and risk transfer capability to sister company AGC; each year about 25%–50% of AGC's new business is expected to be ceded to AG Re under a quota share treaty. Fitch anticipates that in addition to reinsuring AGC's new business, AG Re may also reinsure further portions of AGC's existing book of insured business in the future. AG Re also provides reinsurance to other highly rated, but unaffiliated, primary financial guaranty insurance companies and mortgage insurance companies. In June 2005, AGC, AG Re and Financial Security Assurance Inc. (FSA) closed a transaction transferring from AGC to AG Re approximately \$21 billion of par originally ceded by FSA. As of June 30, 2005, AG Re's financial guaranty insurance and mortgage reinsurance exposures totaled \$42.8 billion and \$2.5 billion, respectively. As of the same date, AG Re's insured liabilities were supported by \$655 million of

qualified statutory capital. For further detail on AG Re, see Fitch's credit report dated April 27, 2005.

### Assured Guaranty Re Overseas Ltd.

Assured Guaranty Re Overseas Ltd. (AGRO) is a Bermuda-based financial guaranty insurance and mortgage reinsurance company, wholly owned and 100% guaranteed by AG Re. Based on the guarantee provided by AG Re, AGRO's IFS is rated 'AA' by Fitch.

### Assured Guaranty Mortgage Insurance Company.

Assured Guaranty Mortgage Insurance Company (AGMIC) is a New York-based mortgage reinsurance company, wholly owned and 100% guaranteed by AG Re. Based on the guarantee provided by AG Re, AGMIC's IFS is rated 'AA' by Fitch.

### ■ Competition

AGC competes against other 'AAA' rated monoline financial guarantors and also must offer terms and pricing that make its products more attractive than uninsured senior-subordinated structures and other executions that do not use financial guaranty insurance. In recent years, continued low long-term

interest rates have resulted in increased demand for uninsured senior-subordinated securitization structures, particularly within the residential mortgage-backed securities (RMBS), asset-backed securities (ABS) and collateralized debt obligation (CDO) sectors.

AGC's most established monoline competitors are Ambac Assurance Corp. (Ambac), Financial Guaranty Insurance Co. (FGIC), FSA and MBIA Insurance Corp. (MBIA), all of which are large, 'AAA' rated financial guarantors. However, other 'AAA' rated monolines, such as XL Capital Assurance (XLCA) and CIFG Guaranty, have entered the 'AAA' financial guaranty universe in the past few years. This has begun to put downward pressure on premium rates, particularly in the domestic non-municipal and international sectors.

In addition, Fitch anticipates AGC's competitive landscape will increase to an even greater extent now that FGIC has been sold to a consortium of investors including The PMI Group, Inc. Under new ownership, FGIC is expanding its presence in the municipal and structured finance sectors, and entering international finance more aggressively.

## ■ Insured Portfolio

AGC's underwriting capability and credit profile are sound. Historically, the company's credit foundation

### Sector Distribution — Net Par

(As of June 30, 2005)

	\$ Mil.	%
Global Municipal Finance		
General Obligation	5,722	11.0
Municipal Utilities	4,952	9.5
Tax Backed	3,459	6.6
Transportation	3,919	7.5
Health care	2,458	4.7
Investor-Owned Utilities	1,241	2.4
Housing Revenue	532	1.0
Other Municipal	693	1.3
Higher Education	620	1.2
Structured Municipal	783	1.5
Subtotal	24,379	46.8
Global Structured Finance		
Collateralized Debt Obligations	13,173	25.3
Mortgage-Backed & Home Equity	6,780	13.0
Commercial Receivables	4,311	8.3
Consumer Receivables	2,051	3.9
Other Structured Finance	1,357	2.6
Subtotal	27,672	53.2
<b>Total</b>	<b>52,051</b>	<b>100.0</b>

Note: Numbers may not add due to rounding.

has been built on insuring or reinsuring obligations that would qualify as investment grade without credit enhancement. Net in force par was \$52.1 billion as of June 30, 2005, made up of 47% public finance transactions and 53% structured finance. The portfolio has significant sector concentration to CDOs and RMBS; however, this concern is substantially mitigated by the high percentage of these transactions with attachment points at 'AAA' rating levels. International transactions make up 12% of total net in force par, 8% of the total public finance portfolio and 15% of the total structured finance portfolio.

Based on AGC's internal ratings as of June 30, 2005, the percentage of credits rated 'AAA' is 37.7%, which compares very favorably with an average of about 15% for the four largest financial guarantors. The concentration of exposure at the 'AAA' level is attributable to the company's conservative underwriting strategy and its high level of CDS activity in the markets for CDOs and RMBS with attachment points of 'AAA' or above. Negatively, however, Fitch notes that \$1.1 billion of total in force par, or 2.1% of total par, is rated below investment grade. This percentage compares unfavorably with an average of about 1.1% of total par below investment grade for the more established financial guarantors. Fitch notes, however, that AGC's elevated percentage of below investment grade exposure is attributable to its previous focus on third-party reinsurance—96% of AGC's total below investment grade exposure has been assumed from third-party financial guarantors, while just 4% has been underwritten directly on either a financial guaranty or CDS basis. Based on the high quality of AGC's underwriting capability and its redefined focus on the direct market, Fitch expects that over time AGC's below investment grade exposure will migrate toward industry norms on a percentage basis.

### Total Insured Portfolio Credit Quality

(%, Years Ended Dec. 31)

	6/30/2005	2004	2003	2002
'AAA'	37.7	30.7	28.4	23.5
'AA'	18.0	21.6	20.6	18.3
'A'	29.0	32.1	34.6	41.3
'BBB'	13.2	13.7	14.6	16.0
BIG/NR	2.1	2.0	1.8	0.9
Weighted Average Credit Quality	'A+'	'A+'	'A+'	'A+'

BIG – Below investment grade. NR – Not rated. Note: Numbers may not add due to rounding. Source: Ratings provided by Assured Guaranty Corp.

Reinsurance comprised about 57% of total net par in force as of June 30, 2005. As the great majority of AGC's in force reinsurance exposure is ceded from 'AAA' primary bond insurers, the quality of this portfolio is expected to mirror the zero-loss underwriting standards of those companies. However, given limitations and exclusions in the various reinsurance treaties between primaries and reinsurers, AGC's assumed reinsurance exposures are less diversified than the insured portfolios of 'AAA' primary financial guarantors. Favorably, because of the strategic decision to emphasize primary market transactions, management expects a minimal percentage of AGC's par written in 2005 to be assumed on a reinsurance basis. Due to AGC's ongoing commitment to the primary market, Fitch expects its legacy reinsurance portfolio to amortize substantially over time, particularly in the non-municipal sectors where transactions tend to amortize relatively quickly.

Consistent with its post-spinoff strategic refocus, AGC has ceded certain riskier components of its legacy reinsurance and CDS portfolio to affiliate AG Re. These

risks include a sizeable quantity of health care risk, single-name corporate risk (subsequently novated by AG Re) and layered (first-loss) risk assumed in prior years from FSA. Although layered loss business often generates greater premiums, its first loss position, as with mezzanine-insured obligations, exposes the reinsurer to higher capital charges per transaction, as any loss is expected to be borne first by the reinsurance layers assumed by the company. The transfer of risk to AG Re improves the credit profile of AGC from a stand-alone perspective. However, because AG Re is an affiliate as well as a key provider of reinsurance to AGC, Fitch believes that AGC remains indirectly exposed to any risk in AG Re's portfolio, including risks it transfers to AG Re and any additional AG Re exposures that are not typically part of a 'AAA' guarantor's credit profile. These additional risks include third-party financial guaranty reinsurance and mortgage reinsurance.

### Municipal Obligations

The U.S. municipal portfolio had \$22.4 billion of net par in force as of June 30, 2005. The credit quality of

### Top Municipal Finance and ABS/MBS Exposures — Assured Guaranty Corp.

(\$ Mil, as of June 30, 2005)

Top 10 Municipal Exposures	Sector	Net Par In Force	% of Net Par In Force	% of Qualified Statutory Capital
State of California	General Obligation — Lease Special Revenue	478	0.9	58.2
Denver, Colo., Airport System	Transportation	400	0.8	48.7
Jefferson County, Ala.	Utility Revenue — Water and Sewer	396	0.8	48.2
Chicago, Ill.	General Obligation	396	0.8	48.2
Long Island Power Authority	Utility Revenue	373	0.7	45.4
State of Mass.	General Obligation — Lease Special Revenue	326	0.6	39.7
Energy Northwest	Public Power	294	0.6	35.8
State of New Jersey	General Obligation — Lease Special Revenue	278	0.5	33.9
Mass. State Turnpike Auth.	Transportation	266	0.5	32.4
San Francisco, Calif., Airport	Transportation	264	0.5	32.2
		3,471	6.7	422.8
<b>Structured Finance</b>				
Park Place (Ameriquest) PPSI 2004-MHQ1 Class A-1	Mortgage and Home Equity	984	1.9	119.9
Ameriquest Mortgage Securities Inc. 2004-R10 A-1	Mortgage and Home Equity	637	1.2	77.6
Argent Securities Inc. 2004-W11 Class A-1	Mortgage and Home Equity	608	1.2	74.1
Synthetic CDO — Investment Grade ABS	Collateralized Debt Obligation	594	1.1	72.4
Structured Finance Corporate Pool	Collateralized Debt Obligation	586	1.1	71.4
		3,409	6.5	415.2
<b>Top Five Aggregate ABS/MBS Issuer Exposures*</b>				
Ameriquest Mortgage Securities Inc.	Mortgage and Home Equity	1,724	3.3	210.0
HomeQ Servicing Corporation	Mortgage and Home Equity	1,081	2.1	131.6
Chevy Chase	Mortgage and Home Equity	870	1.7	105.9
EMC Mortgage Corp	Mortgage and Home Equity	716	1.4	87.2
Citibank	Mortgage and Home Equity	550	1.1	67.0
		4,941	9.5	601.8
Net Par In Force:	\$52,051			
Qualified Statutory Capital:	\$821			

\*May contain transactions originated by other issuers for which the entity acts as servicer. Note: Numbers may not add due to rounding.  
ABS — Asset-backed securities. MBS — Mortgage-backed securities.

this portfolio is strong and geographically well-diversified. Approximately 97% of this portfolio has been assumed from third-party sources during the period when AGC was primarily a reinsurer, and has performed very well over the years. Although the company focuses on insuring lower-risk general obligation (GO), tax-supported and municipal utility revenue bonds, it has also historically underwritten a sizeable level of riskier transportation, health care, and to a lesser extent investor owned utility (IOU) transactions. As of June 30, 2005, GO and tax-supported bonds (38% of U.S. municipal net par in force), municipal utility revenue bonds (22%), transportation (15%), health care (11%) and IOUs (4%) constituted about 90% of U.S. municipal net par in force and 39% of total net par in force.

AGC has relatively moderate exposure to the areas affected by Hurricane Katrina and Fitch does not currently expect the company to pay sizeable claims in connection with this event. Based on the company's disclosure published on Nov. 3, 2005, AGC has \$130 million of municipal finance net par in force within the Federal Emergency Management Agency's (FEMA) Hurricane Katrina disaster areas designated for individual and public assistance. Of this, approximately \$54 million, or about 1% of the industry aggregate, is in greater New Orleans, La. Katrina related exposure for AGC and affiliate AG Re on a combined basis is \$275 million within FEMA-designated areas and \$141 million in greater New Orleans.

Going forward, AGC's business plan calls for significant growth in the company's primary U.S. public finance business line. The company is expected to emphasize general government transactions, including general obligation and water and sewer revenue bonds, private higher education and health care transactions. In order to establish a presence in the market, the company is expected to emphasize small transactions at 'BBB' rating levels. To mitigate the higher credit risk of its targeted niche, AGC will emphasize essentiality of purpose in the utility market and strong franchise value in the private higher education and health care markets. Since the April 2004 spin-off, the company has underwritten about \$524 million of U.S. direct municipal transactions, primarily 'BBB' range GO/tax-backed, higher education, health care and municipal utility transactions with an average par size of about \$20 million.

## Geographic Distribution

(As of June 30, 2005)

	Net Par in Force (\$ Mil.)	%
California	3,625	7.0
New York	2,441	4.7
Illinois	1,592	3.1
Texas	1,340	2.6
Florida	1,331	2.6
Massachusetts	1,157	2.2
Pennsylvania	1,017	2.0
New Jersey	901	1.7
Puerto Rico	674	1.3
Colorado	593	1.1
Top 10 States — Public Finance	14,671	28.2
Other U.S. States	7,776	14.9
U.S. Structured Finance	23,400	45.0
International	6,204	11.9
<b>Total Portfolio Net Par Outstanding</b>	<b>52,051</b>	<b>100.0</b>

Note: Numbers may not add due to rounding.

International public finance transactions will be underwritten by AG UK. The company's international public finance business scope will be focused on the European Private Finance Initiative (PFI) market, which involves financing for public projects primarily in the UK, and the Public Private Partnership (PPP) market, which involves private sector investment in essential public infrastructure projects and other infrastructure transactions such as utilities and airports outside of the UK. Management expects the PFI and PPP sectors to be areas of significant growth for AGC in future years. Since the April 2004 spin-off, AGC has underwritten \$813 million of international public finance par, primarily UK tax-backed transactions.

## Non-municipal Obligations

The U.S. non-municipal portfolio had \$23.4 billion of net par in force as of June 30, 2005. Overall Fitch believes that the quality of the non-municipal portfolio is strong, with about 68% of net par in force rated 'AAA', and 88% rated 'A-' or higher. About 2.7% is rated below investment grade, which is within the range of the structured finance portfolios of the three most established financial guarantors. The portfolio is primarily composed of structured finance transactions in the following categories: CDOs (\$11.2 billion or 48% of non-municipal net par in force), RMBS (\$6.3 billion or 27%), commercial ABS (\$3.4 billion or 14%), and consumer receivables (\$1.9 billion or 8%).

AGC's U.S. non-municipal portfolio is heavily concentrated in the CDO and RMBS sectors; however, this concern is mitigated by the generally

## International Exposure

(\$ Mil., As of June 30, 2005)

Country	Net Par In Force	% of International	% of Total Net Par In Force	Fitch Long-Term Foreign Currency Rating
United Kingdom	3,067	49.4	5.9	'AAA'
Germany	646	10.4	1.2	'AAA'
Australia	405	6.5	0.8	'AA+'
Brazil	311	5.0	0.6	'BB-'
Switzerland	189	3.0	0.4	'AAA'
Other	1,586	25.6	3.0	N.A.
Total International Net Par	6,204	100.0	11.9	
Total Net Par Outstanding	52,051	—	—	—

N.A. – Not applicable. Note: Numbers may not add due to rounding.

high quality of the underlying transactions. Based on internal ratings, 67% of U.S. CDO exposure is rated 'AAA', 91% is rated 'AA-' or higher and just 0.5% is rated 'BBB-' or below. For U.S. RMBS, 74% of net par in force is rated 'AAA', 10% is rated in the 'A' range, 12% is rated in the 'BBB' range, and 1.7% is rated below investment grade, which is within the range of the three most established financial guarantors. Fitch notes with some concern that the domestic structured portfolio has about \$406 million of Enhanced Equipment Trust Certificate (EETC) exposure, of which about \$236 million, or 58%, is rated below investment grade. All of AGC's below investment grade EETC exposure has been acquired from third-party primary financial guaranty companies on a reinsurance basis.

Certain of AGC's insured exposures are subject to the potential for increased loss severity (i.e., lower recoveries) in the event of default. This is due to the mezzanine nature of the exposures, which can be subject to greater loss given default resulting from their subordination to more senior tranches. As of Sept. 30, 2005, AGC had \$4.3 billion of mezzanine layer par in force, across 44 insured transactions, primarily in the synthetic pooled corporate and RMBS sectors. The risks associated with these transactions are mitigated to some extent by the high credit quality of the underlying exposures. Approximately 62% of AGC's mezzanine portfolio is rated 'AAA', 85% rated is 'AA-' or above and less than 1% is rated below investment grade. When evaluating a mezzanine transaction from a capital adequacy perspective, Fitch estimates potential losses from the attachment point to the top of the capital structure and allocates these losses to the mezzanine tranche in accordance with its position in the structure. As of Sept. 30, 2005, the par amount of exposure above AGC's mezzanine exposures totaled \$22.6 billion. While AGC is not obligated to pay

losses for par exposure above its insured tranche, losses exceeding AGC's detachment point would negatively affect the likelihood of recoveries for AGC. Management estimates that due to amortization, the total amount of the exposure above AGC's in force layers should be less than half of its present size by the end of the first quarter of 2007. Fitch notes that AGC has not insured a mezzanine transaction since the 2003 underwriting year. Going forward, however, Fitch believes that AGC may opportunistically underwrite mezzanine risk, but only to the extent that it will be effectively priced to fully account for the risk being insured and that the exposure, inclusive of the par above its insured tranche, fits within its underwriting limits.

As of June 30, 2005, AGC had \$4.3 billion of international non-municipal net par in force composed primarily of CDOs, commercial ABS and RMBS. Overall Fitch believes that the quality of the international non-municipal portfolio is strong, with about 59% of net par in force rated 'AAA', 76% rated 'A-' or higher and just 0.1% rated below investment grade.

Since the April 2004 spin-off, AGC has underwritten about \$11.5 billion of domestic structured finance gross par, approximately 40% of which has been on a CDS basis. However, Fitch notes that indicative of the increasingly challenging competitive conditions in the financial guaranty market, 64% of AGC's 2005 structured finance gross par written has been on a CDS basis. Fitch believes that CDS can pose more of a liquidity risk than standard financial guaranty exposure since payments are often required quickly after notice of an individual claim (see Liquidity section below for further detail). Of the post spin-off domestic structured finance gross par written, \$6.4 billion or 56% has been RMBS, all written at

‘AAA’ attachment points. The balance of the post spin-off domestic structured finance par written is primarily high-quality CDOs. Of the \$4.3 billion underwritten after April 2004, 49% attaches at ‘AAA’ levels and 100% attaches at ‘AA-’ or higher. Internationally, the company has underwritten about \$455 million of gross par since the spin-off, primarily in the equipment lease, future flow and whole business sectors.

Looking ahead, AGC expects to remain active in the CDO and RMBS markets and to expand its presence in the ABS and Structured Credit financial guaranty markets. While Fitch believes that AGC possesses the necessary underwriting skills and management infrastructure to prudently expand its structured finance presence, the company’s trading value disparity, combined with the prevailing competitive industry conditions, could reduce the level of opportunity available over the intermediate term. In the domestic CDO market, AGC expects to emphasize transactions executed in financial guaranty form over the CDS execution it has provided in previous underwriting years. AGC plans to expand its product base beyond synthetic pools of corporate risk to include cash flow CLOs, trust preferred securities, middle market loans and market value CDOs. In the RMBS market, AGC intends to expand its focus beyond ‘AAA’ rated risk, which it has emphasized through its CDS platform. AGC will consider financial guarantees on subprime transactions when credit spreads increase and begin to provide more favorable risk-adjusted returns in this sector. To mitigate the risks inherent in the subprime market, AGC will not insure any transactions rated below ‘A’. Internationally, AGC expects to emphasize synthetic CDOs; however, it also expects to opportunistically originate local transactions in the ABS and Structured Credit markets.

### Single-Risk Concentrations

Fitch notes that AGC’s single risk concentrations in both the municipal and structured finance sectors are high relative to industry averages. AGC’s 25 largest municipal exposures compose almost 13% of net par in force compared with less than 7% for the three largest established guarantors on an aggregated basis. This differential is primarily due to business pressure faced by the company to accept higher levels of capacity-constrained names during the years that it operated as a reinsurer. Fitch believes that AGC’s current emphasis on direct underwriting should alleviate some of this concern over time.

### Risk Management

AGL has a chief surveillance officer (CSO) at the holding company level with overall responsibility for the risk management function. The CSO is responsible for transactional and treaty surveillance, insured portfolio management, risk syndication and claims administration and works closely with the Chief Credit Officer (CCO) in developing and implementing risk limits. Risk management strategies are typically more proactive for direct transactions than for reinsurance transactions, where the reinsurer traditionally “follows the fortunes” of the direct underwriter. For direct municipal risk, credits or sectors perceived to have elevated risk elements are reviewed more frequently than credits or sectors that historically have had fewer defaults. In the event of credit deterioration of a particular exposure, the group reviews the credit more frequently and may take remedial action as permitted by the terms of the transaction. For direct structured finance transactions and certain mortgage risks, data is generally collected monthly or quarterly and comparisons of model and actual performance statistics are made. To the extent that a transaction is performing materially below expectations, the group takes steps to mitigate any potential loss, including meetings with servicers, re-evaluation of loan files and, in extreme cases, removal of the servicer. For the reinsurance portfolio, the risk management team conducts periodic audits of ceding companies to ensure that the primary insurer is managing risk according to the terms of the applicable reinsurance agreement.

The risk management department maintains a list of closely monitored credits (CMCs) to track insured risks believed to have a heightened potential for a claim. The list includes both reinsurance and primary transactions. Credits on the CMC list are reviewed on an ongoing basis, while the CMC itself is updated quarterly and distributed to the risk management committee and to senior management. The CMCs are divided into four categories: low priority (category 1), medium priority (category 2), high priority (category 3) and claim paid or incurred (category 4).

### ■ Investment Portfolio

The credit quality of AGC’s investment portfolio is very strong and provides stable, predictable returns for the company. Beginning Jan. 1, 2005, the portfolio has been managed by Black Rock Financial Management, Inc. As of June 30, 2005, the amortized cost of the portfolio was \$1.03 billion, and 100% of the long-term securities were rated ‘A-’ or better,

## Assured Guaranty Ltd. Investment

### Portfolio Profile

(\$ Mil., As of June 30,2005)

Amortized Cost	2,106.9
Market Value	2,197.9

### By Asset Type (Amortized Cost)

Long-Term Bonds	
Tax Exempt	817.6
Taxable	1,168.2
Total Long-Term Bonds	1,985.8
Short-Term Bonds	121.1
Total Investments	2,106.9

### Long-Term Bonds By Rating Category (Market Value)

'AAA'	1,740
'AA'	234
'A'	103
'BBB'	—
Total	2,076.8

### Maturity of Fixed-Income Investments (Market Value)

Less Than One Year	122.1
One to Five Years	256.5
Five to 10 Years	372.9
Greater Than 10 Years	763.1
Mortgage-Backed Securities	562.2
	2,076.8

Weighted Average Rating	'AA+'
Long-Term Bonds Weighted Average Maturity (Years)	5.4
Duration (Years)	4.2

Note: Numbers may not add due to rounding.

with about 76% of the portfolio being rated 'AAA' or invested in Treasury or Agency obligations. At June 30, 2005, the portfolio had a weighted-average yield of 4.8%, a duration of about 5.2 years, and contained no AGC-insured bonds (although 47% of the portfolio carries insurance from other guarantors).

To maximize after-tax investment income, 75% of the investment portfolio as of June 30, 2005, was invested in tax-exempt municipal bonds, with taxable MBS/ABS, corporate, U.S. government and international sectors accounting for the remaining 25%. The company diversifies the maturities of its holdings to control volatility and reinvestment risk. Investment guidelines are established and monitored by AGL's Finance Committee and require 100% of the fixed income portfolio to be rated 'A' at acquisition and that the overall portfolio maintain a weighted average rating of 'AA+'. Both guidelines were met as of June 30, 2005.

## Assured Guaranty Corp. Investment

### Portfolio Profile

(\$ Mil., As of June 30,2005)

Amortized Cost	1,033.4
Market Value	1,097.3

### By Asset Type (Amortized Cost)

Long-Term Bonds	
Tax Exempt	774.4
Taxable	228.7
Total Long-Term Bonds	1,003.1
Short-Term Bonds	30.3
Total Investments	1,033.4

### Long-Term Bonds By Rating Category (Market Value)

'AAA'	815
'AA'	182
'A'	69
'BBB'	—
Total	1,067.0

### Maturity of Fixed income Investments (Market Value)

Less Than One Year	20.1
One to Five Years	96.2
Five to 10 Years	234.7
Greater Than 10 Years	615.7
Mortgage-Backed Securities	100.3
	1,067.0

Weighted Average Rating	'AA+'
Long-Term Bonds Weighted Average Maturity (Years)	5.9
Duration (Years)	5.2

Note: Numbers may not add due to rounding.

## ■ Financial Performance

The returns of AGC and parent company AGL have been, and are expected to remain over at least the intermediate term, below the 12%–14% range that is typical of an established 'AAA' financial guarantor, due in large part to the historical participation of AGC and AG Re in the low-return financial guaranty reinsurance market. However, as previously discussed, AGC is in the start-up phase of a transition from its historical focus on the financial guaranty reinsurance and CDS markets to the direct primary market. Fitch believes a successful transition will ultimately enable AGC and parent company AGL to produce the type of stable and predictable financial results normally associated with established financial guaranty insurance companies by: a) reducing the reliance on reinsurance, where ceding commissions constrain profitability relative to the more profitable direct market, and b) enabling the company to execute direct transactions in the public finance market and across a wide variety of profitable structured finance sectors that are difficult to access via CDS execution. For the year to date ending June 30, 2005,

## GAAP Condensed Balance Sheet — Assured Guaranty Ltd.

(\$ Mil., As of Dec. 31)

	6/30/2005	2004	2003	2002
Investments at Fair Value	2,197.9	2,140.9	2,189.7	2,052.4
Cash and Cash Equivalents	4.7	17.0	32.4	9.4
Other Assets	569.0	536.1	635.8	658.0
Total Assets	2,771.6	2,694.0	2,857.9	2,719.9
Unearned Premiums	530.2	521.3	625.4	613.3
Loss and LAE Reserves	206.4	226.5	522.6	458.8
Investment Agreements	0.0	0.0	0.0	0.0
Long Term Debt	197.3	197.4	75.0	75.0
Other Liabilities	218.2	221.3	197.2	315.5
Stockholders' Equity	1,619.5	1,527.6	1,437.6	1,257.2
Total Liabilities and Stockholders' Equity	2,771.6	2,694.0	2,857.9	2,719.9
Long-Term Debt to Total Capitalization (%)	10.9	11.4	5.0	5.6

AGC's operating earnings were \$38.9 million and operating return on equity (ROE) was about 8.0%. On a consolidated basis as of June 30, 2005, AGL earned \$116.6 million of operating income and achieved operating ROE of about 15.6%. Fitch notes, however, that ROE is favorably affected by a \$71 million one-time AG Re reinsurance recoverable, and that absent this recoverable operating ROE would be about 9.6% for the year, consistent with recent historical performance.

Additionally, Fitch believes that AGL's profitability on a consolidated basis will be greatly enhanced over time by AG Re's domicile in a tax-efficient environment. Viewed in this perspective, AGC's stand-alone returns understate its true contribution to AGL's consolidated ROE because AGC cedes 25%–50% of the exposure and premium of each new direct transaction under a quota share treaty to AG Re, whose offshore platform enhances the returns on these transactions. In addition, Fitch notes that the June 2005 transfer from AGC to AG Re of \$21 billion of par assumed from a third-party primary guarantor has a significant ongoing profitability benefit, moving about \$160 million of deferred premium revenue into the offshore company.

However, Fitch believes that AGC's ability to move beyond the start-up phase of its plan to enter the primary market is subject to a substantial level of execution risk that will likely constrain profitability in the interim period. These risks include the likelihood that AGC, in establishing its trading value, will experience a trading disparity relative to its more established 'AAA' competitors for some time and may need to be somewhat competitive on pricing.

Although AGC's reinsurance book of business is clearly less profitable than a primary market insured

portfolio with a comparable credit profile, this legacy business line has laid some of the groundwork for future profitability and internal capital generation, and should enable AGC to achieve critical mass more quickly than other new entrants into the financial guaranty primary market. In addition to its sizeable investment portfolio, AGC has net deferred premium revenue of \$169 million at June 30, 2005, that will be amortized into earnings over time, as well as about \$233 million in present value of installment premiums representing future payments on transactions written in the past. Fitch notes that the terms and conditions of some reinsurance treaties leave both AGC and AG Re vulnerable to the possibility of ceding companies demanding the return of a portion of their ceded risk and associated premiums, or other penalties, in the event of a downgrade in their claims-paying ratings.

When evaluating a financial guarantor's returns, Fitch places emphasis on operating earnings, which excludes volatility resulting from FAS 133 requirements to apply a mark-to-market on certain CDS transactions. This distinction is particularly important in the case of AGC, which has a substantial CDS portfolio, whose market value can vary materially over time. This said, Fitch views CDS-related mark-to-market volatility as temporary in nature since the guarantor insures the CDS to maturity and any market discount or premium should disappear as the CDS reaches maturity.

### ■ Liquidity

Fitch believes that AGC has ample sources of liquidity to meet normal operating requirements as well as any needs that could develop as a result of risk in its insured portfolio. However, Fitch notes that about \$16.2 billion or 31% of AGC's net par in force

as of June 30, 2005, is composed of CDS. Fitch believes that CDS can pose more of a liquidity risk than standard financial guaranty exposure since large payments are often required quickly after notice of an individual claim. AGC seeks to mitigate this risk by negotiating the right to pay scheduled principal and interest over the life of the insured risk. Based on discussions with management, as of June 30, 2005, approximately 15% of AGC's total in force CDS exposure was underwritten in this manner. In addition to the 15% of CDS in force par that is structured to pay principal and interest in the event of a default, another 54% of AGC's in force CDS exposure relates to protection written on synthetic pools of corporate names or pools of ABS securities, where the default of an individual reference obligation would require AGC to pay a relatively modest claim; typically \$10 million–\$20 million per defaulted name assuming 100% severity. Further, Fitch recognizes that the majority of AGC's CDS exposure is to senior tranches attaching at high rating levels where there is ample subordination to absorb collateral deterioration and, in the event of default, keep loss severity to a minimum. Finally, Fitch notes that AGC is attempting to emphasize financial guaranty transactions over CDS, which over time should reduce the percentage of the insured portfolio subject to heightened elements of liquidity risk.

Fitch is also concerned that AGC can be subjected to collateral posting requirements in the event of a market value decline built into some of AGC's CDS agreements. In many of these CDS agreements, the collateral posting requirements become more onerous in the event that AGC is downgraded. Based on a review of various agreements within the financial guaranty industry, Fitch believes that of the 'AAA' financial guarantors it rates, only AGC has noticeable exposure to transactions with collateral posting requirements. Fitch is concerned that exposure to collateral posting requirements effectively prioritizes any potential claims payments to policy-holders with whom collateral is posted over those policy-holders whose potential claims payments are not collateralized. Further, it subjects the company to additional volatility inherent in mark-to-market accounting for CDS. Favorably, management has committed that it will no longer write CDS protection for counterparties requiring AGC to post collateral. Fitch expects that this will enable those CDS transactions supported by collateral posting requirements to amortize relatively quickly over the next few years given the comparatively short average lives of the underlying transactions.

Average annual debt service on AGC's financial guaranty book of business is manageable, and reflective of other bond insurers. Guaranteed municipal obligations often have very long final maturities, ranging up to 20–30 years, and principal payments are usually staggered to avoid any single obligation coming due in a given year. Structured transactions tend to pay down over much shorter time horizons, but the quality of the underlying collateral generally reduces any increased liquidity risk. When necessary, financial guarantors typically pay claims on defaulted municipal obligations over the life of the bond, as the insurer receives the premiums for that guaranty up front. Defaulted structured transactions affect bond insurers in two ways: they lose receipt of scheduled future installment premiums and they must pay all interest and principal claims when due.

AGC generates liquidity from cash flow on its operating activities and its investment income. During the first quarter of 2005, net cash flows provided by operating activities were negative \$9 million (about \$40 million of cash outflow is related to intercompany cessions) and net cash flow from investing activities was \$18 million. In addition, its \$1.03 billion investment portfolio is composed of high quality and liquid securities. Additionally, AGL and certain of its subsidiaries have entered into a \$300 million, three-year unsecured revolving credit facility with a syndicate of banks enabling AGL, AGC, AG UK, AG Re and AGRO to obtain loans that could be used for the working capital and other general corporate purposes. A default by one borrower gives the lenders the right to terminate the facility and accelerate any outstanding amounts. AGC guarantees any obligations of AG UK under this facility and, if AGC's consolidated assets falls below \$1.2 billion, AGL will guarantee any obligations of AGC or AG UK. Financial covenants include AGL maintaining minimum net worth of \$1.2 billion, an interest coverage ratio of at least 2.5:1, and a maximum debt to capital ratio of 30%. For its part AGC must maintain statutory capital of \$620 million and a net par to qualified statutory capital ratio of not more than 150:1. At the present time there are no borrowings under the facility, which expires on April 14, 2008, unless extended.

### **Dividends and Debt Service**

In May 2004, Assured Guaranty U.S. Holdings issued senior notes with net proceeds of \$197.3 million due 2034, at an effective rate of about 6.4%. The senior notes are fully and unconditionally guaranteed by AGL. At June 30, 2005, AGL's debt-

to-capital ratio was 10.9%, which is well within established guidelines Fitch has maintained for financial guarantors. During the first quarter of 2005, AGL incurred interest expense on its long term debt of \$3.3 million. The coverage ratio of earnings before interest and taxes (EBIT) to interest expense is 16.7 times (x).

Debt service on the notes is provided primarily through dividend payments from AGC and AG Re. The ability of the operating subsidiaries to pay dividends depends on their financial condition as well as the regulatory restrictions of Maryland (in the case of AGC) and Bermuda (in the case of AG Re). Under Maryland insurance law, AGC may pay dividends out of statutory earned surplus, in an amount not to exceed the lesser of 1) 10% of policyholders' surplus as of its last statement filed with the Superintendent of Insurance of the State of Maryland or 2) adjusted net investment income during this period. Although the maximum amount available for payment of dividends by AGC without regulatory approval in 2005 would be approximately \$27.7 million, AGC has indicated to Fitch that it will not pay more than \$10 million per year in dividends. Any dividends paid by a U.S. company to a Bermuda holding company are presently subject to a withholding tax at a rate of 30%. The amount available at AG Re to pay dividends in 2005 in compliance with Bermuda law is \$557.4 million; however, Fitch expects AG Re to make dividend payments on an annual basis of about \$14.0 million–\$20.0 million per year. In 2004, AG Re also declared a \$25 million dividend to fund share-repurchase activity. Fitch will monitor the future dividend plans of both AGC and AG Re to ensure that they do not jeopardize the capital adequacy or IFS ratings of either company.

Dividends from the operating subsidiaries are also used to fund dividend payments to the equity investors of AGL. AGL paid \$4.5 million in dividends in the first six months of 2005. Subsequently, annualized dividend rates are expected to exceed the levels seen in the first six months of 2005, but Fitch is comfortable that any amounts paid to equity investors will be in line with the present IFS ratings of AGC and AG Re.

## ■ Capitalization

Fitch believes that there is sufficient excess capital on both a standalone basis, and on a consolidated basis with AG Re, to support AGC's current IFS rating. Significant levels of excess capital are required by

Fitch to be maintained during the start-up phase of AGC's plan to enter the primary financial guaranty market in order to offset the significant level of execution risk involved. Because AG Re is an affiliate as well as a key provider of reinsurance to AGC, Fitch places significant weight on the capital stress test results of the combined AGC and AG Re entities. Fitch believes that AGC remains indirectly exposed to any risk in AG Re's portfolio, including any risks it transfers to AG Re and any additional AG Re exposures that are not typically part of a 'AAA' guarantor's credit profile. These additional risks include third-party financial guaranty reinsurance and mortgage reinsurance. Fitch has performed a detailed review of AGC's and affiliate AG Re's insured exposures, and has modeled losses both with respect to the portfolio of AGC on a standalone basis, and to the combined portfolios of AGC and AG Re. The excess capital resulting from this analysis is due to the strong levels of claims-paying resources of the two companies. Going forward, AGC and AG Re must monitor internal growth to ensure that it remains within a range that can be supported by either currently existing capital resources or by capital generated internally at the time of growth.

As of June 30, 2005, AGC's qualified statutory capital totaled \$821 million, against \$52.1 billion of net par in force. AGC's operating leverage ratio (net par in force/capital) is 64:1. Although this ratio is conservative relative to an average of about 100:1 for the more established guarantors, it is large for a start-up guarantor and demonstrates the level of capital resources deployed in support of a low return legacy reinsurance portfolio. As AGC emerges from its current start-up phase, Fitch expects its leverage level to increase; however, the incremental capital will be more profitably deployed in the primary financial guaranty market. Further, for comparative analytical purposes, Fitch adjusts the par to capital ratio to include \$22.6 billion of par exposure senior to mezzanine exposure and \$1.9 billion of risk remote AGC reinsurance (see Reinsurance and Soft Capital section below for further detail). Recalculated on this basis, AGC's operating leverage ratio is 93:1. AGC/AG Re's combined operating leverage ratio is also 93:1 including the effect of both \$40.7 billion of par exposure senior to mezzanine exposure and risk remote reinsurance. As mentioned previously, neither AGC nor AG Re is obligated to pay losses on par exposure above their insured tranches; however, their level of recoveries could be directly affected in the remote instance that losses are incurred.

## **Reinsurance and Soft Capital**

AGC's ceded par totaled \$11.4 billion, or 18% of gross par outstanding as of June 30, 2005. However, Fitch believes that the company achieves very little risk transfer benefit from its existing outbound reinsurance relationships. Of its total ceded par, about \$8.7 billion (76%) is ceded to affiliates AG Re and AGRO. Fitch believes that AGC remains indirectly exposed to any risks transferred to its affiliates. An additional \$1.9 billion of ceded par (17%) is ceded on a risk remote excess of loss basis, which provides AGC with regulatory single risk benefit, but provides no material risk transfer benefit. Fitch expects that as AGC implements its business plan in the years ahead, outbound reinsurance will become increasingly important as a source of soft capital and as a risk management strategy.

In April 2005, AGC entered into separate agreements with each of Woodbourne Capital Trust I, Woodbourne Capital Trust II, Woodbourne Capital Trust III and Woodbourne Capital Trust IV. In aggregate, these trusts issued \$200 million of securities paying interest at one month LIBOR plus a 110-basis-point put premium paid by AGC. Proceeds from the sale of the securities are invested in high grade commercial paper (CP) or treasury securities. To draw upon these funds, AGC would put perpetual preferred shares in AGC to the trust. Because this facility is prefunded and can be drawn upon to its full amount at AGC's option at any time, Fitch deems the facility to be equity-like and, as a result, this soft

capital facility receives substantial equity credit under Fitch's internal capital guidelines.

AGC maintains a non-recourse credit facility with a syndicate of banks that provides up to \$175 million in the event of catastrophic losses in its municipal insured portfolio. This facility is considered a form of reinsurance by Fitch due to its limited recourse nature, as repayment is made only from recoveries and installment premiums of defaulted bonds. The facility expires in December 2010 and is subject to an annual extension for an additional term of one year in order to maintain its term at seven years.

AGC provides wholly owned subsidiary AG UK with three support arrangements. First, AGC will provide a net worth maintenance agreement designed to ensure that capital will remain at the greater of: 2 times the minimum solvency margin required by the Financial Services Authority (FSA); 1.5 times the amount the FSA may require under the future Individual Capital Adequacy Standards (ICAS) regime; or GBP3.8 million. Second, through a quota-share reinsurance treaty, AG UK will cede 90% of its net financial guaranty exposure to AGC. Third, through an excess of loss reinsurance agreement, AGC will assume AG UK losses in the amount required to maintain AG UK capital at the greater of: 2 times the minimum solvency margin required by the FSA or 1.5 times the amount the FSA may require under the future ICAS regime.

## Key Financial Indicators — Assured Guaranty Corp.

(\$ Mil., Years Ended Dec. 31)

	6/30/05	2004	2003	2002	%	C,G
<b>Financial Data (SAP)</b>						
Gross Par Insured	3,904	17,807	14,612	17,896	(29.6)	C
Domestic Municipal	389	3,022	4,572	7,187	(41.1)	C
Domestic Nonmunicipal	3,136	12,948	7,526	9,416	(3.4)	C
International	379	1,837	2,513	1,292	(87.5)	C
% Nonmunicipal and International	90.0	83.0	68.7	59.8	2.7	C
Gross Premiums Written (1)	(138.7)	168.5	219.2	154.6	49.2	C
Adjusted Gross Premiums Written (2)	47.7	172.4	200.9	186.1	(100.0)	C
Net Premiums Written (1)	(133.7)	59.8	255.8	123.3	235.6	C
Premiums Earned	45.5	120.6	159.0	104.9	(20.7)	C
Net Investment Income (3)	26.1	51.2	47.3	46.9	1.8	C
Realized Capital Gains/(Losses)	1.0	1.2	2.1	4.2	355.0	C
Total Underwriting Expenses (4)	(28.8)	80.0	82.5	58.0	(174.8)	C
Net Operating Expenses (5)	(28.8)	64.0	82.0	56.5	(174.8)	C
Losses Incurred (6)	3.5	(10.1)	41.2	37.1	N.M.	C
Net Income/(Loss)	68.0	103.2	66.6	46.2	34.6	C
Adjusted Net Income/(Loss) (7)	43.1	(15.2)	(26.4)	(37.6)	238.1	C
Dividends to Stockholders	0.0	0.0	10.0	8.0	0.0	C
Gross Par Expense Ratio (%) (8)	(0.7)	0.4	0.6	0.3	—	—
Net Expense Ratio (%) (9)	21.5	107.1	32.0	45.9	—	—
Loss Ratio (%) (10)	7.7	(8.4)	25.9	35.4	—	—
Combined Ratio (%) (11)	29.2	98.7	57.9	81.2	—	—
Dividend Payout Ratio (%) (12)	0.0	0.0	(37.9)	(21.3)	—	—
Policyholders' Surplus	277.4	236.7	255.6	287.0	(1.3)	G
Contingency Reserve	543.4	518.4	400.0	307.0	25.7	G
Qualified Statutory Capital (13)	820.8	755.1	655.6	594.0	13.8	G
Unearned Premium Reserve	226.5	405.8	466.7	369.9	(17.8)	G
Loss and LAE Reserves	12.0	31.8	55.0	40.8	(38.6)	G
Cash and Invested Assets	1,059.3	1,200.8	1,155.4	978.8	3.2	G
Net Investment Yield (%) (14)	4.6	4.3	4.4	5.0	—	—
Adjusted Investment Yield (%) (15)	N.A.	5.9	5.9	6.5	—	—
Return on Surplus (%) (16)	33.5	(6.2)	(9.7)	(12.1)	—	—
Return on Capital (%) (17)	17.3	14.6	10.7	8.0	—	—
Dividends/Surplus (%)	0.0	0.0	3.9	2.8	—	—
<b>Insured Portfolio</b>						
Gross Par Outstanding (18)	63,440	87,583	83,490	78,565	(8.2)	G
Net Par Outstanding	52,051	74,001	78,399	72,259	(12.3)	G
Gross P&I Outstanding (18)	84,698	122,602	124,117	121,255	(13.4)	G
Net P&I Outstanding	71,101	105,831	117,406	113,074	(16.9)	G
<b>Leverage Ratios</b>						
Net Par/Qual. Stat. Cap. (:1)	63.4	98.0	119.6	121.7	(22.9)	G
Net P&I/Qual. Stat. Cap. (:1)	86.6	140.2	179.1	190.4	(27.0)	G
<b>Investment Portfolio Credit Quality (%)</b>						
'AAA'	76.4	75.0	75.3	79.9	—	—
'AA'	17.1	17.3	16.6	13.2	—	—
'A'	6.5	6.9	8.0	6.9	—	—
'BBB'	0.0	0.0	0.0	0.0	—	—
Not Investment Grade/Not Rated	0.0	0.0	0.0	0.0	—	—

See Notes and Definitions, page 16.

## Key Financial Indicators — Assured Guaranty Ltd.

(\$ Mil., Years Ended Dec. 31)

	6/30/05	2004	2003	2002	%	C,G
<b>Summary Income Statement (GAAP)</b>						
Insurance Revenues	87.0	241.1	410.5	196.9	(12.9)	C
Financial Services Revenue (19)	0.0	0.0	0.0	0.0	0.0	C
Net Investment Income	46.8	94.8	96.3	97.2	(2.2)	C
Other Revenues	3.5	12.0	5.5	7.9	(65.0)	C
Total Revenues	137.3	347.9	512.3	302.0	(12.9)	C
Loss and LAE	(68.5)	(32.0)	144.6	120.3	N.M.	C
Operating Expense	29.0	67.8	41.0	31.0	(26.1)	C
Total Insurance Expense	(10.8)	102.2	260.4	208.2	(129.6)	C
Interest Expense	6.7	10.7	5.7	10.6	68.5	C
Other Expense	0.0	0.0	0.0	0.0	0.0	C
Nonrecurring Items	0.0	1.6	0.0	0.0	0.0	C
Total Expense	(4.1)	114.6	266.1	218.8	(110.1)	C
Income Before Taxes	141.4	233.3	246.2	83.2	20.6	C
Net Income	111.1	182.8	214.5	72.6	23.4	C
Adjusted Net Income (20)	117.2	148.7	131.1	107.8	54.8	C
<b>Summary Balance Sheet (GAAP)</b>						
Total Investments and Cash	2,202.7	2,157.9	2,222.1	2,061.9	2.7	G
Reinsurance Assets or Recoverables	126.2	135.4	133.1	280.3	(27.3)	G
Derivative Assets	34.5	43.9	0.0	0.0	N.M.	G
Deferred Acquisition Costs	188.2	186.4	178.7	157.3	7.4	G
Accrued Investment Income	21.4	21.9	23.8	22.0	(1.1)	G
Other Assets	198.6	148.5	300.2	198.4	0.0	G
Total Assets	2,771.6	2,694.0	2,857.9	2,719.9	0.8	G
Unearned Premiums	530.2	521.3	625.4	613.3	(5.7)	G
Loss and Loss Adjustment Expense Reserves	206.4	226.5	522.6	458.8	(27.4)	G
Guaranteed Investment Contract Obligations	0.0	0.0	0.0	0.0	0.0	G
Long-Term Debt	197.3	197.4	75.0	75.0	47.2	G
Derivative Liabilities	0.0	0.0	8.6	107.0	(100.0)	G
Accrued Interest Payable	0.0	0.0	0.0	0.0	0.0	G
Other Liabilities	218.2	221.3	188.7	208.5	1.8	G
Total Liabilities	1,152.1	1,166.4	1,420.2	1,462.6	(9.1)	G
<b>Shareholders' Equity</b>						
Preferred Stock	0.0	0.0	0.0	0.0	0.0	G
Total Shareholders' Equity	1,619.5	1,527.6	1,437.6	1,257.2	10.7	G
Total Liabilities and Shareholders' Equity	2,771.6	2,694.0	2,857.9	2,719.9	0.8	G
<b>Cash Flow Information (GAAP)</b>						
Cash Flow from Operations	70.6	(44.6)	200.0	277.7	N.M.	C
Cash Flow from Investing	(57.6)	22.3	(145.3)	(267.0)	(162.7)	C
Cash Flow from Financing	(25.2)	6.9	(31.8)	(5.5)	(243.2)	C
Net Change in Cash	(12.2)	(15.4)	22.9	5.3	N.M.	C
<b>% of Total Revenue</b>						
Net Premiums Earned	70.2	54.0	60.7	81.9	—	—
Net Investment Income	34.1	27.2	18.8	32.2	—	—
Net Realized Gains (Losses) on Investments	2.5	3.4	1.1	2.6	—	—
Net Realized and Unrealized Gains (Losses) on Derivatives	(6.9)	15.1	19.2	(17.9)	—	—
Financial Services	0.0	0.0	0.0	0.0	—	—
Other Revenues	0.1	0.2	0.2	1.2	—	—
<b>Ratios (GAAP) (%)</b>						
GAAP Loss and LAE Ratio (21)	(71.1)	(17.0)	46.5	48.6	—	—
GAAP Expense Ratio (22)	27.2	85.2	8.3	8.8	—	—
GAAP Combined Ratio (23)	(43.9)	68.2	54.9	57.4	—	—
Return on Equity (24)	14.1	12.3	15.9	11.5	—	—
Financial Leverage	10.9	11.4	5.0	5.6	—	—
Adjusted Gross Premiums	48	172	201	186	—	—
Domestic Municipal	9	57	78	70	—	—
Domestic Non-Municipal	29	74	93	103	—	—
International	10	42	30	13	—	—
Adjusted Gross Premiums (AGP)/Gross Par Insured (GPI)	1.2	1.0	1.4	1.0	—	—
Domestic Municipal AGP/Domestic Municipal GPI	2.3	1.9	1.7	1.0	—	—
Domestic Nonmunicipal AGP/Domestic Nonmunicipal GPI	0.9	0.6	1.2	1.1	—	—
International AGP/International GPI	2.5	2.3	1.2	1.0	—	—

See Notes and Definitions, page 16.

## Notes and Definitions for Key Financial Indicators, Pages 14–15

- 1) Includes \$(191.4) million related to FSA back-book transaction.
- 2) Upfront premiums plus the estimated present value of future installment premiums for policies issued during the period.
- 3) After investment expenses, before realized capital gains or losses.
- 4) Before ceding commission income.
- 5) Net of ceding commission income.
- 6) Includes LAE incurred.
- 7) Net of allocations to the contingency reserve and effect of tax and loss bonds.
- 8) Total underwriting expenses divided by gross par insured.
- 9) Net operating expenses divided by net premiums written.
- 10) Losses incurred divided by premiums earned.
- 11) Net expense ratio plus loss ratio.
- 12) Dividends to stockholders divided by adjusted net income.
- 13) Policyholders' surplus plus contingency reserve.
- 14) Net investment income divided by average invested assets.
- 15) Net investment yield using the taxable equivalent of tax-exempt income and excluding certain non-income-producing assets.
- 16) Adjusted net income divided by average policyholders' surplus.
- 17) Net income divided by average qualified statutory capital.
- 18) Before reinsurance.
- 19) Includes interest from investment and payment agreements less interest expenses from investment and payment agreements.
- 20) GAAP net income excluding change in fair value of derivatives, assuming a 35% tax rate.
- 21) GAAP loss and LAE divided by GAAP net premiums earned.
- 22) GAAP operating and underwriting expenses divided by GAAP net premiums earned.
- 23) GAAP Loss and LAE ratio plus GAAP expense ratio.
- 24) GAAP net income divided by average stockholders' equity.

C – Percentage change between June 30, 2005 and June 30, 2004. G – Compound annual growth rate over the period shown. SAP – Statutory accounting practices. LAE – Loss-adjustment expenses. P&I – Principal and interest. GAAP – Generally accepted accounting principles. N.R. – Not reported. N.M. – Not meaningful. N.A. – Not available. AGC – Assured Guaranty Corp. AGR – Assured Guaranty Re Ltd. Note: Net par outstanding and net principal and interest are net of intercompany cessions. Numbers may not add due to rounding.

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