

**Credit Opinion: Assured Guaranty Re Ltd.**

**Assured Guaranty Re Ltd.**

*Bermuda*

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Insurance Financial Strength	Aa2
<b>Parent: Assured Guaranty Ltd (Bermuda)</b>	
Outlook	Stable
Issuer Rating	Aa3
Senior Unsecured Shelf	(P)Aa3
Subordinate Shelf	(P)A1
Preferred Shelf	(P)A2
<b>Assured Guaranty Re Overseas Ltd.</b>	
Outlook	Stable
Insurance Financial Strength	Aa2
<b>Assured Guaranty Mortgage Insurance Company</b>	
Outlook	Stable
Insurance Financial Strength	Aa2

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**Key Indicators**

**Assured Guaranty Re Ltd.**

<b>(\$ mil.)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Gross Par Written (\$ million)	21,946	15,522	16,363	2,701
Gross Premiums Written (\$ million)	203.3	143.8	82.9	139.5
Net Par Outstanding (\$ million) [1]	41,358	36,250	10,600	6,687
Hard Capital (\$ million)	1,277	1,073	995	1,093
Net Income (\$ million) (GAAP)	113.1	136.6	101.6	115.7
Strategy & Franchise Value				
% of Industry Net Par Outstanding	1.8%	1.6%	0.6%	0.4%
% of Industry Gross Par Written	38.6%	40.1%	n/a	n/a
Portfolio Characteristics				
Credit Risk Ratio [2]	44.8bps	43.3bps	36.1bps	39.7bps
Tail Risk Ratio [2]	155.7bps	150.1bps	122.9bps	165.6bps
Capital Adequacy				
Hard Capital Ratio Aa [2]	1.52x	1.59x	2.18x	7.79x
Total Capital Ratio Aa [2]	1.35x	1.42x	1.93x	6.69x
Par Reinsured	0.76%	n/a	n/a	n/a
Profitability				
Return on Equity [3]	9.7%	12.5%	10.6%	10.4%
Loss Ratio (GAAP)	-12.7%	-73.6%	-50.6%	67.1%
Expense Ratio (GAAP)	47.2%	42.2%	62.8%	33.9%

Financial Flexibility				
Earnings Coverage	14.5x	18.1x	16.8x	26.0x
Cash Flow Coverage	nm	nm	nm	nm
Double Leverage	113.2%	112.1%	n/a	n/a

[1] Does not include par outstanding ceded from affiliate Assured Guaranty Corp. [2] Model ratios are as of 6/30/06. [3] Net of impact of gain/(loss) on derivatives for the period

## Opinion

### SUMMARY RATING RATIONALE

Assured Guaranty Re Ltd. (AG Re) is a Bermuda based financial guaranty reinsurer with an insurance financial strength rating (IFSR) of Aa2. AG Re is the parent company of Assured Guaranty Mortgage Insurance Company (IFSR Aa2), a mortgage guaranty reinsurer, and an affiliate of Assured Guaranty Corp. (AGC) (IFSR Aaa; stable), which writes primary financial guaranty insurance. AG Re is wholly owned by Assured Guaranty Ltd. (issuer rating Aa3), the ultimate holding company of the Assured group, which guarantees the debt of Assured US Holding (senior debt rating Aa3), the holding company of AGC. AG Re acts as the group's main reinsurer but also offers reinsurance to other primary financial guarantors. While AG Re and AGC operate as separate legal entities, their ratings are related, reflecting the strategic relationship and interdependence of the two companies.

AG Re's rating is based on its strong capital base, the conservative financial profile and strategy of the Assured Guaranty group, as well as the existing earnings stream coming from its established financial guaranty reinsurance business. The rating also considers the strategic significance of AG Re to the overall group as a tax efficient complement to the direct business of AGC. The rating differential between AGC and AG Re reflects Moody's view that AG Re faces somewhat higher franchise and credit risks than AGC, and that AGC's primary business should become relatively more prominent over time.

AGC and AG Re, as the two main operating entities of the group, are executing business plans that focus on primary financial guaranty and financial guaranty reinsurance respectively. New reinsurance activities are being underwritten by AG Re while AGC is concentrating on writing primary business. AG Re's portfolio has grown six fold in the last three years given its assumption in 2005 of FSA-originated business previously held by AGC, coupled with reinsuring approximately 30% of the business written by AGC during 2005 and 2006. Most of the business that AGC cedes to AG Re is quota share although AGC has, on the margin, used its captive reinsurance relationship for portfolio shaping purposes by ceding higher risk business to its affiliate, resulting in a deterioration in AG Re's portfolio risk and capital ratios. AG Re's capital position is currently above Moody's threshold for Aa-rated financial guaranty reinsurers. As the reinsurance portfolio grows, however, the firm may need to strengthen its total capital ratio through the issuance of soft capital. Moody's expects that AG Re will take whatever actions are necessary to manage its capital adequacy position going forward.

AG Re's reinsurance relationships have shifted from treaty to facultative arrangements over time as the primary companies have come to rely on reinsurance as a tool to manage their portfolio risk concentrations. In addition, reinsurance volume has declined more recently given the cyclical slowdown in new business written by the primaries. While facultative relationships give reinsurers more control over the shaping of their own portfolio and return characteristics (in that they have the ability to turn-down deals), production is generally not as stable as with treaty relationships. Competition in the reinsurance segment has also increased with the emergence of new entrants. However, Moody's expect AG Re to continue to benefit from its long history in the financial guaranty reinsurance sector.

### Credit Strengths

Largest provider of financial guaranty reinsurance

High quality insured portfolio, although portfolio risk ratios have trended down more recently

Conservative leverage profile of the group

### Credit Challenges

Increased uncertainty with shifting demand fundamentals

Reduced capacity as a result of AGC ceding higher-risk exposures to AG Re for portfolio shaping purposes

Meaningful improvement in the group's profitability will take time as AGC rationalizes a fully staffed operating infrastructure and modest (but growing) business volume

## Rating Outlook

The rating outlook for AG Re is stable.

## What Could Change the Rating - Up

Moody's does not foresee ratings improvement in light of the group's business strategy.

## What Could Change the Rating - Down

Deterioration in the competitive environment or product demand

Failure to sustain hard and total capital ratios at a reasonable cushion above 1.3x to absorb business strategy execution risks

Extensive diversification of the group into higher risk business

## Recent Results and Developments

In June, 2007, Moody's upgraded the IFS ratings of AGC to Aaa, the senior debt rating of AG US Holding to Aa3, and the issuer rating of AG Ltd. to Aa3. The outlook is stable.

## Notching Considerations

The Aa3 senior debt rating of AG US Holdings is three notches from the Aaa insurance financial strength rating of its operating company, AGC, which is one notch wider than is typical for the financial guaranty industry. This is a result of the debt being serviced by both Aaa rated AGC and Aa2 rated AG Re. The Aa3 issuer rating of AGL is one notch lower than the Aa2 IFSR rating of AG Re, as a result of the benefit it derives from its investment in Aaa rated AGC through its ownership of the intermediate holding company AG US Holdings.

## DETAILED RATING CONSIDERATIONS

Moody's rating for Assured Guaranty Re is in line with the rating implied by the scorecard.

Factor 1 - Franchise Value and Strategy: A

With 39% of the reinsurance industry's gross par written in 2006, AG Re is the largest monoline reinsurer. However, Moody's believes that reinsurers generally follow the fortunes of primaries and have high client concentrations, resulting in inherently lower franchise value. Furthermore, demand for AG Re's product has been tempered by new entrants and the reluctance of primaries to expand or sustain quota share relationships. The group has made significant enhancements to its corporate governance, operating infrastructure and risk management processes since the IPO, although these processes are still somewhat untested.

Factor 2 - Portfolio Credit Characteristics: Aaa

AG Re's portfolio characteristics are better than the average for reinsurers but somewhat weaker than the overall industry, (reflecting some adverse selection from primary financial guarantors) and significant exposure to international project finance transactions which tend to be riskier due to their long maturity and low investment grade ratings. Although the company's credit risk ratio is solidly in the Aaa range, the above characteristics influence its tail risk ratio, which is within the range of what we believe to be appropriate for a Aa financial guaranty reinsurer.

Factor 3 - Capital Adequacy: Aa

AG Re's 2Q2006 capital ratios were in the Aaa range but trended down during the latter half of 2006 due to the company's deployment of capital to reinsure AGC exposures, some of which are in relatively higher-risk sectors. As a result the score for this factor has been adjusted to Aa. Moody's believes that AG Re will manage its capital adequacy appropriately for a Aa2 rated reinsurer.

Factor 4 - Profitability: Aa

The Assured group's profitability metrics are below the industry average and are reflective of AGC's investment in an operating infrastructure capable of increased capacity, together with lower premiums associated with writing a substantial portion of high quality business.

Factor 5 - Financial Flexibility: Aa

The leverage profile for the consolidated Assured Guaranty group, which benefits from the ownership of AGC and AG Re, is conservative and well within our guidelines for Aa-rated financial guaranty holding companies. Furthermore, as the Assured Group's market share and returns grow, we would also expect improvements in its capital access and cost of capital.

## Rating Factors

### Assured Guaranty Re Ltd.

Financial Strength Rating Scorecard [1]	Aaa	Aa	A	Baa	< Baa	Score	[2]Adjusted Score
<b>Factor 1: Strategy &amp; Franchise Value (25%)</b>						A	A
% of Industry Net Par Outstanding				1.8%			
% of Industry Gross Par Written		38.6%					
Moody's Adjusted Book Value/Book Value		1.3x					
Client Concentration				X			
Management, Governance & Risk Management Oversight		X					
<b>Factor 2: Portfolio Characteristics (20%)</b>						Aaa	Aaa
Credit Risk Ratio [3]	44.8						
Tail Risk Ratio [3]		1.56					
% Below Investment Grade	1.3%						
S (WCL > 10% of HC) / HC		57%					
<b>Factor 3: Capital Adequacy (30%)</b>						Aaa	Aa
Hard Capital Ratio [3]	1.35x						
Total Capital Ratio [3]		1.20x					
Par Reinsured	0.8%						
<b>Factor 4: Profitability (15%)</b>						Aa	Aa
Return on Equity - 3 year average		10.9%					
Loss Ratio (GAAP) - 3-year average	-43.3%						
Expense Ratio (GAAP) - 3-year average			49.2%				
<b>Factor 5: Financial Flexibility (10%)</b>						Aaa	Aaa
Earnings Coverage	14.5x						
Cash Flow Coverage	nm						
Double Leverage	113.2%						
Ease of Access to Capital		X					
<b>Aggregate profile</b>						Aa2	Aa2

[1] Scorecard as of 12/31/2006. [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis. [3] Model results as of 6/30/06. The hard and total capital ratios listed in the scorecard are at a Aaa level to facilitate industry comparison.

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