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Analysis
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Contact	Phone
<i>New York</i>	
Arlene Isaacs-Lowe	1.212.553.1653
Deven Kapoor	
Jack Dorer	

Assured Guaranty Corp

Summary Opinion

RATING RATIONALE

The Aa1 Insurance Financial Strength Rating (IFSR) of Assured Guaranty Corp. (AGC) and the Aa2 IFSR of its sister company, Assured Guaranty Re International Ltd. (AGR) are linked, and reflect the strong capital base and conservative financial profile and strategy of the recently formed Assured Guaranty group. The A1 issuer rating of Assured Guaranty Ltd. (AGL) reflects the subordination of holding company unsecured creditors to insurance claims at the operating company level. The ratings also take into consideration the uncertainties associated with the significant changes in the strategic direction of the main operating companies of the group, its new status as a public company, and the limited track record of AGC in the primary financial guaranty business. The rating differential between AGC and AGR reflects Moody's view that AGR faces somewhat higher franchise and credit risks than AGC and that the primary business, underwritten at AGC, should become relatively more prominent over time.

The two main entities of the group, Assured Guaranty Corp. and Assured Guaranty Re International Ltd., are undergoing significant strategic changes and are focusing on primary financial guaranty and financial guaranty reinsurance, respectively. AGC is currently the largest monoline financial guaranty reinsurer but has been increasingly pursuing primary financial guaranty activities over the last five years, initially through CDS markets and now also through financial guaranty policies. Under the ongoing strategic shift, new reinsurance activities will be increasingly underwritten by AGR, while AGC will focus essentially on primary business. The group has novated, retroceded or sold the majority of its non-financial guaranty exposures and businesses, other than mortgage guaranty reinsurance, which it considers to be financial guaranty-like, to subsidiaries of ACE Limited.

Moody's noted that there are some risks associated with the change in strategic direction. Senior management has strong experience relevant to the industry but is, for the most part, new to the company. Primary financial guaranty is a franchise driven business where ratings and relative trading value represent significant differentiating factors. Assured Guaranty, as a relatively new player, will have to establish itself as a viable alternative to the well-established primaries at a time where competitive pressures appear to be intensifying. Financial guaranty reinsurance is relatively more attractive today than in the past given a decrease in supply but new players and some structured reinsurance solutions may alter the competitive landscape. Also, the group's growing primary financial guaranty business competes directly with its main reinsurance clients. While the change in strategic direction of the firms composing the new AGL is significant, the group benefits from an existing financial guaranty infrastructure developed over the last few years and significant financial guaranty experience. Additionally, the group's large capital base, existing earnings stream, and position in monoline reinsurance, should make it a meaningful new force in the financial guaranty sector.

RATING OUTLOOK

The group's ratings outlook is stable. However, Moody's recognizes that the current ratings reflect the uncertainty about the group's performance due to the lack of track record. As a result, successful and meaningful progress in the implementation of the new strategic plan of the group could lead to additional positive rating pressures. Similarly, an inability of the group to establish itself as a reliable participant in the primary financial guaranty market and/or a substantial weakening of its established reinsurance franchise could weaken the group's credit profile. Moody's will monitor the performance of each of the two main operating companies, AGC and AGR, and evaluate the extent to which such performance affect the companies' and/or group's credit profile.

RECENT EVENTS

In May 2004, ACE Limited sold approximately 65% of Assured Guaranty Ltd., the group's holding company, through an initial public offering. The IPO was shortly followed by a \$200 million long-term debt issuance by Assured Guaranty US Holdings Inc. to repay a debenture to ACE Limited that was entered into in connection with the IPO transaction.

Company Overview

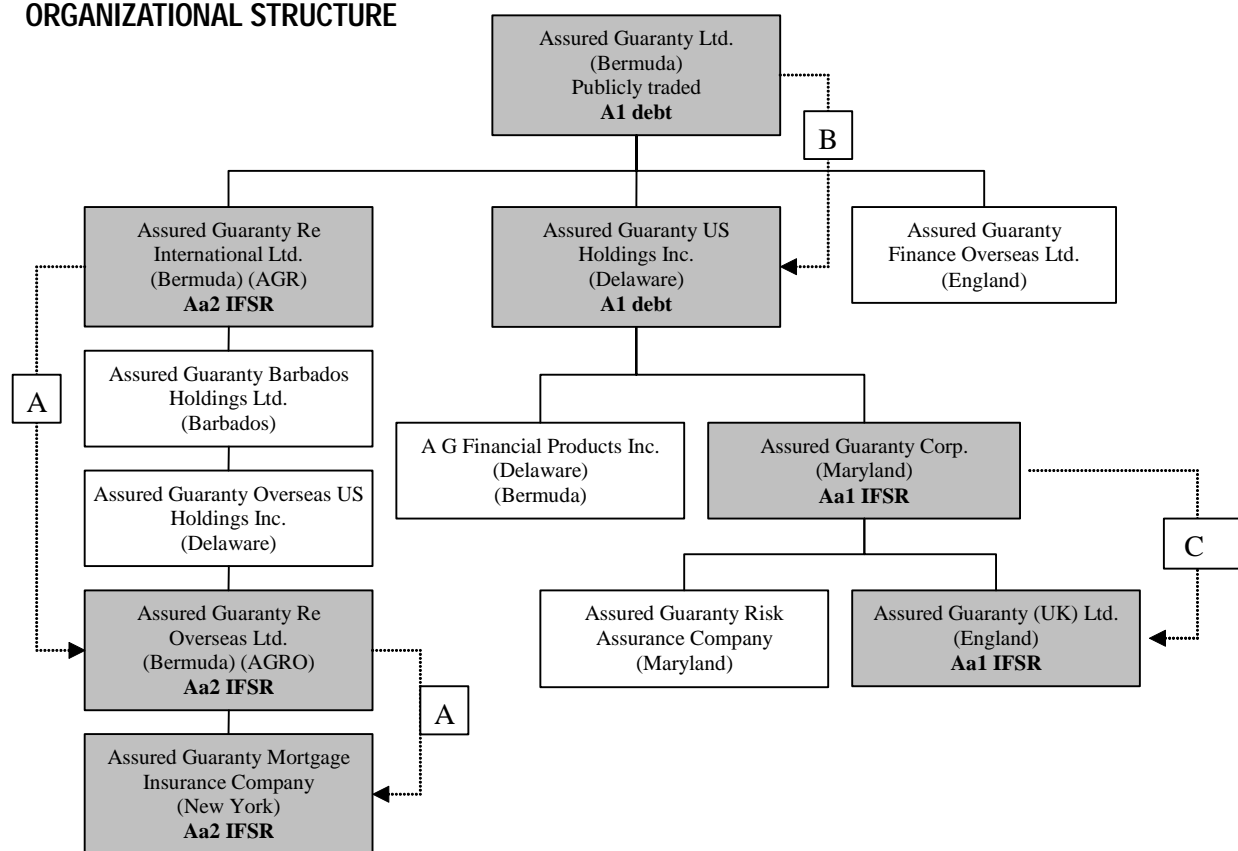
BACKGROUND AND PARENT

AGC is an indirect wholly owned subsidiary of Assured Guaranty Limited (AGL), a newly formed publicly listed company [NYSE: AGO]. The group successfully did its IPO in April 2004 completing the spin-off of ACE's financial guaranty business. ACE Limited currently retains 35% of AGL's stock. Under the group's new strategic direction, the two main entities, Assured Guaranty Corp. (AGC) and Assured Guaranty Re International Ltd. (AGR), focus on primary financial guaranty and financial guaranty reinsurance, respectively. The group novated, retroceded or sold the majority of its non-financial guaranty exposures and businesses to subsidiaries of ACE Limited, other than mortgage guaranty reinsurance which is being pursued by Assured Guaranty Mortgage Insurance Company (IFSR Aa2), a wholly owned subsidiary of AGR.

AGC, most recently called ACE Guaranty Corp., was the market's largest monoline reinsurer, operating under the name of Capital Reinsurance Company before it was acquired by ACE Limited in 1999. AGC started shifting its focus in 2000 from being a pure monoline reinsurer to pursuing a two-tiered strategy that also comprised the insurance of credit default swaps (CDS), and it began underwriting direct financial guaranty policies in 2003. Reinsurance will play a decreasing part in AGC's strategy, as it is the intent of the group to underwrite the bulk of its third party reinsurance in AGR while AGC focuses on primary business. AGC will also cede between 20 to 30% of its business to AGR.

As part of the ownership and strategy changes, the group had a major staffing reorganization resulting in an experienced but fairly new senior management team and a significant reduction in staff. The one third reduction in employee count reflects, in part, the discontinuation of non-financial guaranty activities and efforts to achieve better operational efficiency across the group.

ORGANIZATIONAL STRUCTURE



A: Assured Guaranty Re International Ltd. provides a keepwell to Assured Guaranty Re Overseas Ltd., that in turn provides a keepwell to Assured Guaranty Mortgage Insurance Company. Both AGR and Assured Guaranty Re Overseas Ltd. agree to provide sufficient funds to their respective subsidiaries to meet their obligations.

B: Assured Guaranty Ltd. guarantees the debt issued by Assured Guaranty US Holdings Inc.

C: Assured Guaranty Corp. will provide to Assured Guaranty (UK) Ltd.: 1) a 90% quota share reinsurance agreement, 2) an excess of loss reinsurance agreement, and 3) a net worth maintenance agreement (at the greater of £3.8 million, two times minimum regulatory requirement, or 1.5 times such other amount required by the UK regulators under the Individual Capital Adequacy Standards ("ICAS") regime).

EUROPEAN SUBSIDIARIES OF THE GUARANTORS

Growth in the international markets, specifically Europe, is a critical factor in determining the overall health of the financial guaranty industry and potential growth rates for each of the guarantors. While most of the guarantors have incorporated a separate primary financial guaranty subsidiary in Europe, Moody's Investors Service does not evaluate the subsidiaries on a standalone basis. The underwriting, risk management and capital adequacy guidelines are evaluated on a consolidated basis for both the parent and the subsidiary. The basis for this analytical approach is grounded on the relationship between each parent financial guarantor and its European subsidiary as documented in support agreements between the two parties.

The support agreements function to transfer the vast majority of the risks underwritten at the European subsidiary to the U.S. based financial guarantor parent. Therefore the analysis for the parent and the subsidiary uses a consolidated approach where the assets and liabilities of both companies are pooled. Thus the model results are for the combined entity.

Although there are some variations among companies, typically the support agreements are a net worth maintenance agreement, a quota share reinsurance agreement and an excess of loss reinsurance agreement. Taken together the agreements result in little retained risk at the subsidiary, which are consequentially minimally capitalized.

Assured Guaranty (UK) Ltd. is the most recent of the financial guarantor European subsidiaries to be established and was rated in 2004 by Moody's. It will allow AGC to enter the European market in the same manner as other U.S. based financial guarantors. Its support agreements, from AGC, follow the standard model which allows for the rating of the U.S. financial guarantor parent to be applied to the subsidiary:

- A. Quota Share Reinsurance Agreement: Under this agreement 90% of the exposure at the UK subsidiary is reinsured to the U.S. parent. While the agreement may be terminated, coverage will remain in effect for any reinsured exposure existing at the time of the termination.
- B. Net Worth Maintenance Agreement: Under this agreement Assured Guaranty agrees to maintain the greater of 3.8 million UK pounds and (i) 2 times the required minimum under the current UK regulatory mandate or (ii) 1.5 times such other amount required by the UK regulators under any future regulatory regime. This agreement can only be terminated upon a rating confirmation.
- C. Excess of Loss Reinsurance Agreement: Any losses which are not covered by the Reinsurance Agreement and which exceed the share capital of the company less the greater of 3.8 million UK pounds and (i) 2 times the required minimum under the current UK regulatory mandate or (ii) 1.5 times such other amount required by the UK regulators under the future ICAS regulatory regime will be covered by this agreement. The agreement may terminate but will remain in effect for any reinsured policies in effect on the date of the termination.

Financial Guaranty Strategy and Competitive Environment

BUSINESS STRATEGY

The two main operating companies of the group, AGC and AGR, have significantly changed their strategic focus concurrent with the initial public offering of the parent company, Assured Guaranty Ltd., and substantially reduced ownership by ACE Limited. AGC and AGR will focus on primary financial guaranty and financial guaranty reinsurance, respectively. Mortgage insurance and reinsurance activities will continue at Assured Guaranty Mortgage Insurance Company (AGM), a subsidiary of AGR. AGC's sizeable reinsurance book still makes it the largest monoline reinsurer but the company has increasingly been pursuing primary financial guaranty activities. New reinsurance activities will be increasingly underwritten by AGR, while AGC is expected to focus on primary business. AGR has retroceded or sold its non financial guaranty businesses other than mortgage reinsurance, which it considers financial guaranty-like.

Assured Guaranty Corp. is pursuing a fairly traditional three-legged primary financial guaranty strategy that comprises municipal finance, structured finance, and international underwriting. The firm is expecting to compete in the same space as the Aaa rated primaries, and is focused on improving its existing rating. Accordingly, AGC is committed to reducing the share of business written in credit default swap form, recognizing the distinct mark to market and liquidity risks associated with such exposure. AGC has also recently created a UK-based insurance subsidiary, Assured Guaranty (UK) Ltd., to participate in the fast growing European financial guaranty markets. However, some sectors of the financial guaranty market are very rating sensitive and AGC's current ratings make it difficult for the firm to actively participate in most of the municipal market. Despite this challenge, AGC's large reinsurance book provides substantial revenues and diversification benefits while the firm develops its primary business.

TRENDS IN PRIMARY MARKET

The primary financial guaranty market has reached the end of a strong three-year cycle that was fueled by an attractive combination of decreasing interest rates and significant credit stress. Lower interest rates led to substantial refinancing in the municipal sector, providing tremendous opportunities for the guarantors. In fact, not only origination volume but also guarantors' penetration rates were at a historic high. At the same time, market concerns about credit risks, driven by peak corporate defaults and municipalities' budgetary problems, have contributed to very healthy premium rates and strong demand on quality business. The guarantors were, however, not completely immune to credit deterioration as reflected by the noticeable increase in their below investment grade exposure over the same period, but market opportunities did significantly outweigh credit deterioration, resulting in strong risk-adjusted capital adequacy ratios for the industry overall.

The environment facing the financial guaranty industry today is more challenging. Three distinct factors are at play. First, rising interest rates have led to a decrease in municipal refinancing and total origination, limiting guarantors' underwriting opportunities. Second, with improved economic conditions, credit spreads have narrowed significantly, making financial guaranty less competitive relative to other forms of execution. A related development has been the large growth of the collateralized debt obligation (CDO) market; CDOs have been aggressively buying various asset types, including asset-backed deals at both the senior and mezzanine level, further contributing to lower credit spreads. Third, competition is intensifying in the financial guaranty sector. In addition to the four established Aaa guarantors, Ambac, FGIC, FSA and MBIA, the industry now comprises some more recent entrants targeting similar markets, Assured Guaranty Corp., CIFG, and XLCA (Aaa-rated except for Assured Guaranty Corp. rated Aa1). FGIC, which essentially focused on municipal underwriting under its former parent, General Electric, is now targeting a wider range of opportunities, affecting the supply demand dynamics in these markets. It is also interesting to note that Radian Asset, a Aa3-rated financial guarantor, has been targeting a fairly distinct market, with a focus on providing Aa-rated guarantees. While it is still too early to tell, if Radian Asset were to be successful it would indicate that the market is becoming more receptive to a wider range of financial guaranty products, possibly, with competitive and strategic consequences for the overall industry.

The more difficult competitive environment in the United States is expected to lead to some premium compression and lower business volume relative to the high levels achieved in the recent past. However, the strong earnings stream embedded in the portfolio of the established guarantors should mitigate the impact of this cyclical low on earnings. Also, international business is expected to provide significant growth opportunities to the guarantors over time but the volatility in volume written, and the large size and often marginal investment grade profile of some of the transactions, may make this source of growth somewhat less reliable. The current environment is conducive to the exploration of new underwriting types, diversification activities, and stock buybacks, by the guarantors. Moody's current expectation is that the industry will maintain sufficient underwriting and pricing discipline to go through this downcycle without significant damage to its credit profile.

TRENDS IN REINSURANCE

The financial guaranty reinsurance competitive landscape has undergone fundamental changes in the past two years marked by the exit of a number of multi-line reinsurers and one large monoline, the transformation of the two leading monoline reinsurers ACE Guaranty Corp. and Radian Re into hybrids emphasizing primary business, and the formation of a new semi-captive reinsurer, Channel Re.

- In late 2002, AXA Group decided to put AXA Re Finance, one of the largest monoline reinsurers, into run-off to focus on its core insurance businesses that it believes present more attractive opportunities.
- Munich Re and American Re, two multi-lines that had actively provided reinsurance to the financial guarantors, ceased reinsuring new business due to more lucrative opportunities in other markets, and because of rating downgrades which reduced the benefit that the guarantors derive from ceding business to those companies.
- Assured Guaranty Corp (AGC) and its sister company, Assured Guaranty Re International Ltd., which were spun-off from ACE Limited through an IPO in the spring of 2004, are focusing on primary financial guaranty and financial guaranty reinsurance respectively.
- In June 2004, Radian Re was merged into its affiliate Radian Asset Assurance which pursues primary financial guaranty business in niche market sectors, with Radian Asset being the surviving entity.
- RAM Re remains the only traditional monoline financial guaranty reinsurer.

The net effect of these changes has temporarily shifted some of the bargaining power from the primary companies to the reinsurers as evidenced by a reduction in the overall level of ceding commissions. The decline in reliable reinsurance capacity has also prompted the primaries to look for new sources of reinsurance or to change the way they use reinsurance. Several recent developments that have either increased reinsurance capacity or reduced the need for reinsurance are as follows:

- The formation of Channel Reinsurance Ltd, a Aaa rated Bermuda-based financial guaranty reinsurer owned by a group of investors including MBIA and which currently provides reinsurance exclusively to MBIA.
- New primary companies, notably CIFG and SJFG, have been using their excess capacity for providing reinsurance to other primaries. XLFA also offers limited reinsurance capacity to primaries other than XLCA and FSA.
- Rising interest rates and narrowing spreads have resulted in lower business production for the primaries, reducing the need for reinsurance.

In Moody's view, reinsurance will remain an important risk management tool for the primary guarantors as a way of managing their capital needs and portfolio risk concentrations. In order to secure permanent sources of reinsurance, relationships will continue to be important for the primaries, who recognize that they have a vested interest in keeping their main reinsurers financially healthy. Yet the primaries also require reinsurance that is economical, and generally view reinsurance as a commodity-like product. While the terms of trade have, at least temporarily shifted in favor of the reinsurers, the pendulum could shift back if new capital is attracted to the industry and competition among reinsurance providers heats-up.

NON FINANCIAL GUARANTY ACTIVITIES - MORTGAGE INSURANCE

AGC's affiliate, AGR will continue to write excess of loss mortgage insurance and reinsurance in the US, UK and Australian markets in a manner consistent with financial guaranty investment grade standards. This involves providing structured mortgage insurance as opposed to traditional MI to large lenders and the GSE's on an opportunistic basis. AGR expects that, by supplying mortgage insurance, it will be able to write prime-quality risk with demand that is less reliant on RMBS market spreads and is, therefore, less volatile. The company no longer underwrites quota share mortgage reinsurance, with its existing quota share reinsurance book (which is, on average, seasoned in excess of seven years) running-off in 2007. Going forward, mortgage insurance and RMBS will be underwritten by a common team of underwriters at the reinsurer to provide consistent underwriting standards and enabling it to better manage risk concentrations. Mortgage insurance risk in force at year end 2003 was \$2.2 billion. AGR plans are to increase its inforce par by 50% over the next three years - modest growth given the size of the mortgage insurance market.

Risk Management & Controls

CORPORATE GOVERNANCE¹

Moody's initiated its Corporate Governance Assessments (CGA) of financial guarantors to improve rating quality and help investors, creditors, and insured beneficiaries better assess credit risk. Governance issues vary considerably for financial guarantors primarily due to the various ownership structures currently in place. A core focus of our assessments is the degree to which the board proactively maintains rating strength, which is essential to the company's franchise. We focus heavily on the quality of board and committee oversight of credit, underwriting and model risks, and on how management controls for such risks. We routinely evaluate the alignment of interests between management's pay and incentive structure, the interests of owners, and the long-term concerns of beneficiaries, particularly in the cases where corporate structure is likely to change over the short to medium term.

The Assured Guaranty group's newly formed board has broad and relevant experience in the financial services sector. With an ongoing 35% ownership interest ACE continues to have board representation but the majority of directors are independent. Now that the IPO has been completed, the Assured Guaranty Group will be focused on solidifying its corporate governance including establishing a process for board oversight of its risk management and underwriting functions.

UNDERWRITING DISCIPLINE

Management's objective is to create a diversified portfolio of high quality municipal and structured transactions, where risk of loss is remote. Given the industry's modest capital base relative to other financial institutions, the risk profile of the insured portfolio is of utmost importance. For this reason, AGC underwrites to an "investment-grade" standard, where in the event of a claim the severity of loss is low.

1. For a more detailed review of the company's governance, please see Moody's report, Assured Group's Corporate Governance Assessment to be issued later in 2004.

The first focus of underwriting remains the acceptability of the related credit risk, but portfolio considerations, such as fit of the credit in terms of single risk, sector & geographic risks and profitability, are key considerations. At AGC, the underwriting function benefits from an information feedback loop from the surveillance function that helps refine underwriting parameters from experience. AGC currently has 25 professionals in the underwriting area, 15 of which are in the US structured area, 6 in the US municipal sector and 4 covering the international segment.

SURVEILLANCE CAPABILITIES

A key ingredient to the success of any financial guaranty company is its surveillance and loss remediation skills. The financial guarantors typically have a greater ability to influence the outcome of workout situations than other investors, given the relative size of their exposures, as well as their broad level of expertise within particular industries and sectors. In addition, many asset-backed transactions can be structured to allow the guarantor to control servicing and capture cash flow if problems arise.

For its direct structured book, AGC relies on quantitative models to identify and track problem credits. The problem credits are then remodeled on a quarterly basis and remedial steps are taken for any material deterioration as needed. For its single name corporate obligations and the tracking of underlying collateral for its cash CDO's, AGC relies on a combination of credit spreads, ratings and equity performance to identify potential problems. For its reinsured book, AGC relies heavily on surveillance efforts and workout expertise of the primary companies with which it does business. In addition, AGC has recently dedicated a municipal analyst to focus on surveillance of its direct municipal portfolio

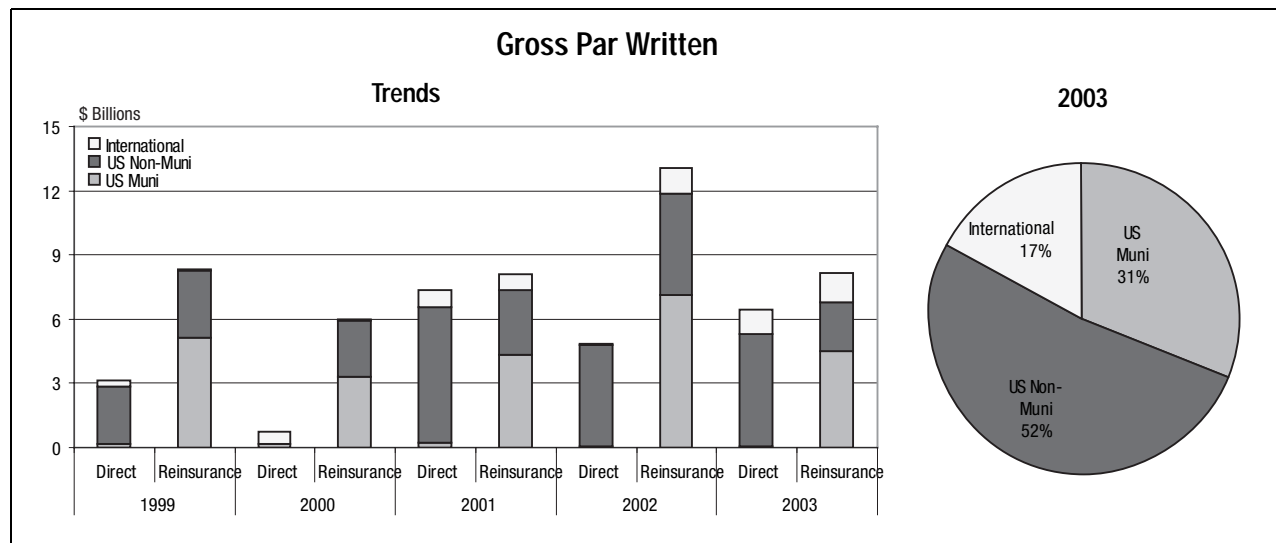
PORTFOLIO RISK MANAGEMENT

AGC relies on rating agency models for portfolio risk management and does not currently have a comprehensive internal model. This is in contrast to the more established players in the industry that have developed portfolio risk models that are largely similar to the rating agency models. It reflects, in part, Assured Guaranty's legacy as a reinsurer, when it had limited choices in the business it assumed and therefore could not use a model to refine its underwriting. The company has indicated that it will create its own model as its direct business grows and portfolio shaping becomes important.

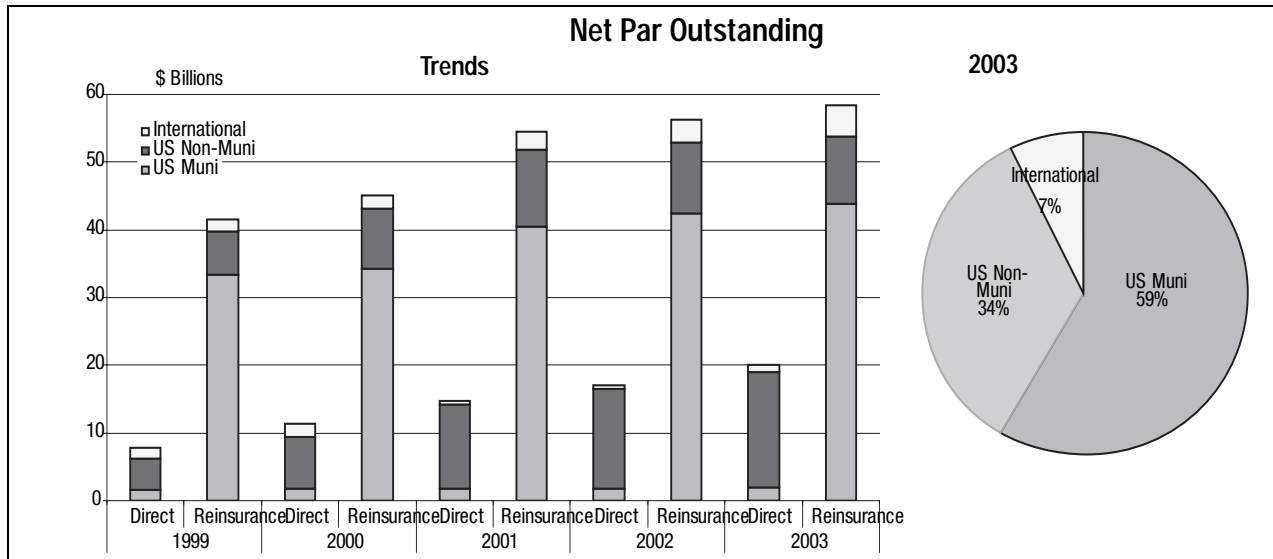
Insured Portfolio

OVERVIEW

After a surge in 2001, par written has fallen from its peak with 2003 reinsurance down considerably from the prior two years. The decline reflects, in part, AGC's greater focus on the development of its primary business. AGC will continue to write reinsurance in the next few years but the group expects new reinsurance activities to be underwritten in AGR. Currently AGC only has a quota share reinsurance treaty with FSA. MBIA recently decided not to renew their treaty, and Ambac reduced Assured Guaranty's share of its treaty to 20%, from an arguably concentrated 40%, with the remaining 20% ceded to AGR. FGIC, consistent with its current reinsurance philosophy only uses reinsurance on a facultative basis. On the direct front, 2003 par written increased over 2002 reflecting the firm's heightened focus on the primary business. After insuring credit default swaps for several years, AGC insured its first financial guaranty policy in 2003 and expects to triple its direct par written by 2005.

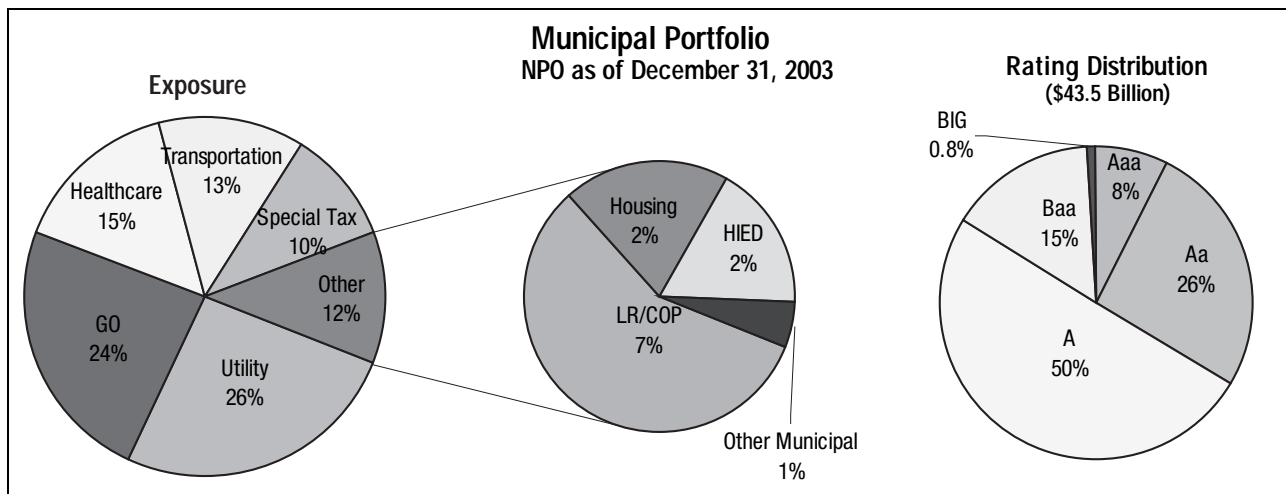


The rate of growth for total par outstanding has slowed as AGC is now concentrating on the more profitable direct business. US municipal accounts for 52% of the outstanding book, but it accounted for only 31% of the business written last year as structured CDS remained the focus. AGC will continue to reinsure municipal exposures for diversification purposes, but its ability to directly write municipal business is hampered by its current ratings. AGC's insured portfolio is expected to shift over time from municipals and single name corporate risk towards structured finance exposure.



USE OF REINSURANCE

- As a reinsurer AGC has had limited use of retrocessions except for a few capacity constrained names. The firm has several high attachment point excess of loss policies in place that serve to reduce its regulatory par outstanding, but Moody's does not view these arrangements as having commensurate risk transfer benefits.
- As of year end 2003 the amount retroceded was \$5.1 billion including \$2.4 billion to AGR and a \$1.8 billion high attachment point excess of loss cession of its CDO/CDS portfolio done for regulatory reasons with limited risk transfer.
- Going forward, AGC is expected to cede between 20%-30% of its direct business to its affiliate, AGR, and to make greater use of reinsurance to lower single risk concentrations.

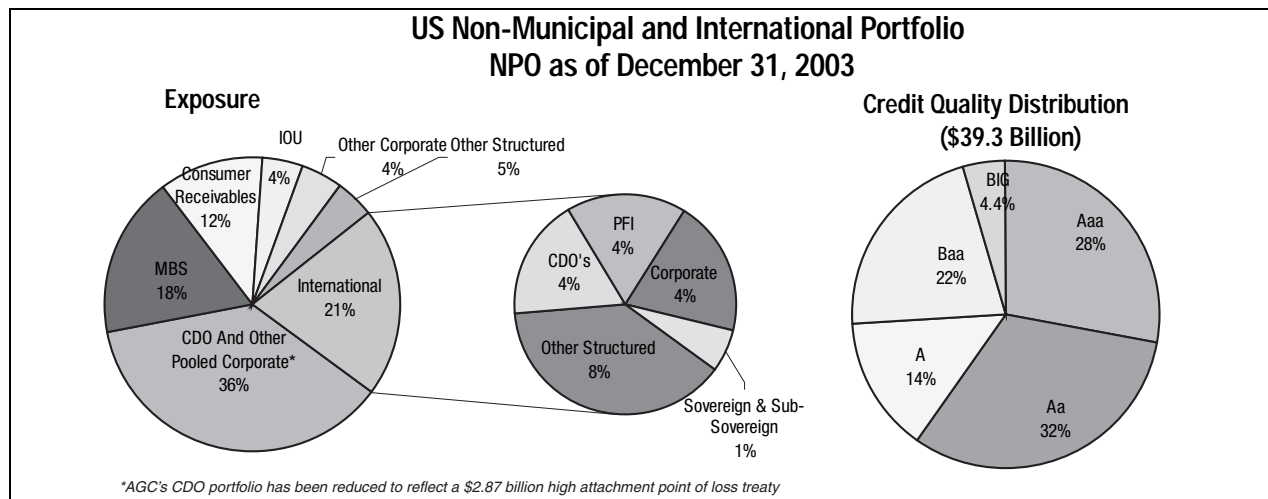


Of the municipal portfolio:

- 42% is in the tax-backed sectors - general obligations, special tax, and lease revenue - which comprise the lowest risk sectors in the portfolio.
- 26% is to bonds backed by revenue streams of municipal water and/or sewer projects and electric utilities that are generally low risk, although electric utilities are facing some competition in light of industry deregulation.
- 27% of the exposure is to riskier sectors such as healthcare (including a \$730 million FGIC excess of loss healthcare cession - with limited risk to AGC) and transportation related exposures like airports that experienced some stress in the past 3 years. AGC intends to transfer approximately 30% of its healthcare exposure to AGR in the third quarter of 2004.

The municipal market is largely a Aaa market where, unlike some of the structured markets, the Aaa rating is generally not substituted for competitive premiums. AGC's current direct municipal strategy is largely restricted to some of the smaller issuers, capacity constrained names, and the auction rate market.

AGC's municipal credit quality distribution remained virtually unchanged from that of a year ago, with about three quarters of its exposure in the A-Aa range and modest improvement in its below investment grade exposure.



Of the US Non-Municipal and International Portfolio:

- Credit default swaps of CDOs and other structured securities, including CMBS, accounted for the bulk of AGC's structured exposure. This is predominantly highly rated Aaa business and has improved AGC's rating distribution, but it is sensitive to the performance of the overall market. CDS currently accounts for a fourth of AGC's total exposure compared with 11% for the 3 largest primaries.
- About 60% of AGC's non municipal portfolio is rated in the Aaa-Aa range which is higher than the industry as a whole, and reflects the firm's underwriting of highly rated CDS. While the credit quality distribution remained virtually identical to that of the prior year, there was a slight increase in non-investment grade exposures as some project finance and consumer asset classes remained under stress.
- AGC's short tenured single name corporate CDS business has largely run off and the remaining exposure was ceded to its affiliate AGR, post IPO. This is a segment that is not generally insured by the primary financial guarantors given that it may prove more volatile and more risky than their traditional focus. AGC mitigated some of this risk by targeting short maturity credits with an average credit quality of Aa3, and through the imposition of stringent limits on single risk exposures.
- Non-US exposure accounts for 8.6% of AGC's total exposure and is mostly from reinsurance. This sector is expected to grow with the establishment of AGC's UK subsidiary in July 2004 that will pursue European opportunities.
- Due to its weaker trading value relative to the more established primaries, AGC is currently unable to participate in the rotation programs of some of the large ABS/ MBS originators. With credit spreads at multi-year lows, competing with established primaries for plain vanilla consumer ABS/MBS transactions is uneconomical for AGC. Consequently, the structured wraps currently pursued by AGC tend to involve more complex transactions in less-established asset classes.

The risk characteristics of CDS are often distinct from traditional financial guaranty policies in terms of the nature of losses and their timing, with generally, broader default definitions and accelerated claims payment. However, AGC has written CDS with terms that are designed to mimic financial guaranty policies. In addition, mark-to-market of CDS exposure leads to volatility in reported earnings. AGC may also need to post collateral with CDS if market spreads widen significantly. While AGC has deemphasized its activities with counterparties requiring collateral posting agreements, the posting of collateral may nonetheless reduce its financial flexibility. The firm is committed to reducing its reliance on CDS execution as it moves forward with its primary strategy.

CURRENCY RISK

AGC has \$7.3 billion of exposure outside the US, mostly in the UK while its capital is US dollar denominated. This exposes the firm to some currency risk if it has to pay a non US dollar claim. While this is not currently an issue given the small size of the exposure in force, AGC will need to enhance its currency risk management as it grows its international exposure.

LARGE SINGLE RISKS AND CORRELATED RISKS

From a portfolio perspective, large single names can measurably contribute to the risks of the overall insured book, depending upon the magnitude, credit quality, and tenor of the exposure. State insurance laws and regulations impose limits on the maximum single risk exposure that a financial guaranty reinsurer can assume but these tend not to be too burdensome in the riskiest sectors. The company also operates under its own internal capacity constraints to avoid concentrations within its portfolio. Assured Guaranty has established single risk limits at both the individual company levels (AGC and AGR) and the group level. In Moody's view, the worst case loss (as opposed to the generally larger net par) on any single transaction should not exceed 10% of the firms' hard capital. For AGC there are a few transactions that exceed this limit, but the number remains manageable.

Largest Single Risk Exposures				
<i>As of December 31, 2003 (\$ millions)</i>				
Issuer	Bond Type	Net Par Outstanding	Par as a % of Hard Capital	Rating*
Municipal				
New Jersey State - G.O and Leases	General Obligation	725	52.3%	Aa3
California State - G.O. and Leases	General Obligation	650	46.9%	A3
Massachusetts State G.O. & Bay Transportation & Leases	General Obligation	521	37.6%	Aa2
Chicago Illinois - G.O.	General Obligation	481	34.7%	A1
New York State Metro Trans Auth - Trans Revenue	Transportation	480	34.7%	A2
Non-Municipal				
Synthetic CDO - IG ABS	CDO/CDS	625	45.1%	—
Synthetic CDO - IG ABS	CDO/CDS	594	42.9%	—
Synthetic CDO - IG Corporate	CDO/CDS	554	40.0%	—
Sears Credit Card Master Trust 2002-3 Class A	Credit Card	550	39.7%	—
Synthetic CDO - IG Corporate	CDO/CDS	540	39.0%	—
<i>* Issuer Names and Ratings not listed are not public</i>				

LARGEST BELOW INVESTMENT GRADE EXPOSURES

AGC's ten largest non investment grade transactions are provided in the table below. All of these were assumed by AGC on a reinsurance basis. AGC non investment grade exposure is approximately 2.7% of its reinsured book and 2.0% of its direct book.

AGC's Selective Largest Non Investment Grade Exposures		
<i>As of December 31, 2003 (\$ millions)</i>		
Bond Type	Net Par Outstanding	Rating*
PFI-Toll Roads & Bridges	118	Ba2
Credit Card ABS	99	—
Credit Card ABS	92	—
Asset Backed - EETC	80	—
IOU-Electric & Gas)	65	Ba1
Credit Card ABS	61	—
GO-Local	46	Ba1
Asset Backed - EETC	45	—
Healthcare	38	Ba2
Credit Card ABS	37	—
<i>* Ratings not shown on non public transactions</i>		

PORTFOLIO RISK RATIOS

Moody's utilizes a simulation model for evaluating portfolio risk for financial guaranty companies. Although a precise measure of the potential loss associated with a guarantor's existing insured exposure is difficult to obtain, the amount of capital needed to withstand a wide variety of stress scenarios can be estimated. The results of the model runs provide a probability loss distribution reflecting the portfolio's credit quality, maturity structure, and distribution across bond market sectors. The amount of loss in a distress scenario (the right hand tail of the distribution) also depends critically on the guarantor's risk concentrations, which arise from exposure to single names, single ABS seller/servicers, highly

volatile sectors, and macroeconomic risk stemming from macroeconomic volatility. These factors tend to "fatten" the tail and increase the worst-case losses.

The tail risk is an important indicator of a company's claim paying capability under extraordinarily adverse circumstances and is, therefore, a useful indicator of financial strength. However, other factors are important as well, including the potential credit losses that are likely to occur under more normal circumstances, the diversification of the portfolio, the capital structure and the capital raising ability of the firm, and the profitability of the business booked. Consequently, in Moody's view, there is no single ratio that encapsulates a guarantor's risk of default or rating transition risk. Instead, the individual ratios must be viewed in a broader context to assess an insurer's true financial strength. The following charts summarize the company's key portfolio risk ratios.

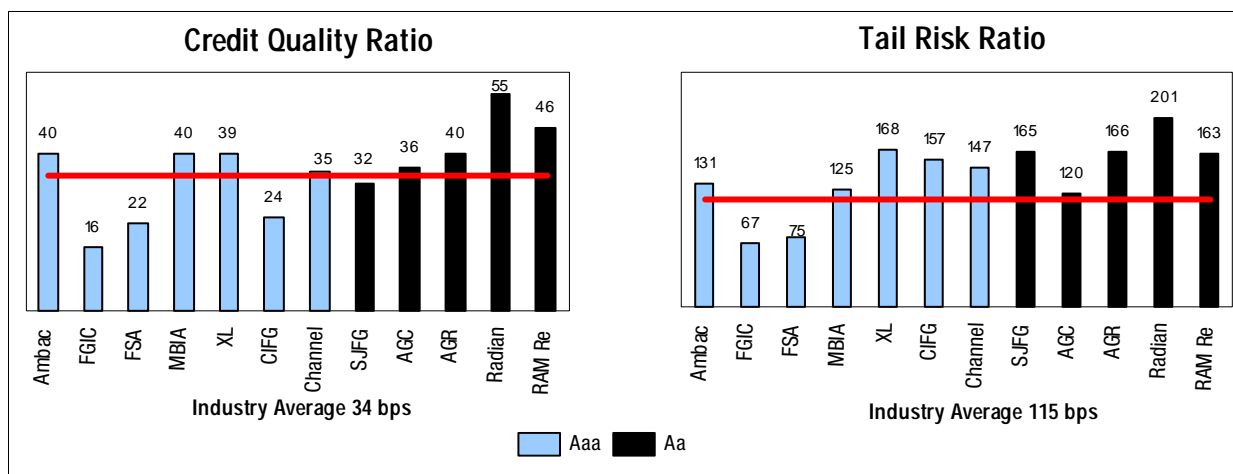
Key Portfolio Risk Ratios- Definition of Terms

Credit Quality Ratio	Formula:	$\text{Expected Losses} \div \text{Adjusted Net Par Outstanding}$ Expected present value of losses imbedded in the insured portfolio relative to net par outstanding, adjusted for the benefit received from reinsurance (i.e., the average expected loss rate on the portfolio). This ratio indicates a portfolio's average credit quality, which depends upon its distribution across sectors, rating categories and tenors.
	Concept:	
Tail Risk Ratio	Formula:	$99.9 \text{ Percentile Losses} \div \text{Adjusted Net Par Outstanding}$ The maximum amount of (present value) credit losses with 99.9% confidence relative to net par outstanding, adjusted for the benefit received from reinsurance. Measures portfolio's stress-level losses relative to par, which depends upon its average credit quality, risk concentrations and correlations among credits.
	Concept:	
Dispersion Ratio	Formula:	$99.9 \text{ Percentile Losses} \div \text{Expected Losses}$ The maximum amount of (present value) credit losses with 99.9% confidence relative to the expected losses embedded in the insured portfolio. Measures the impact of large single risks & risk concentrations on portfolio risk for a given expected loss level.
	Concept:	

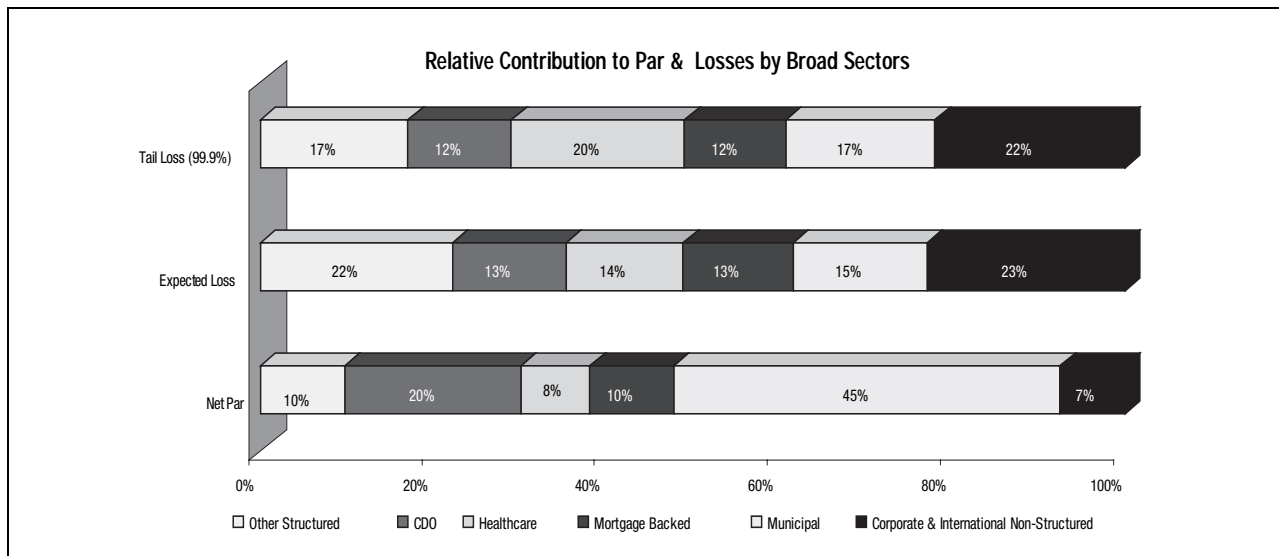
Year end results reflect rating actions through June of the following year

The credit quality ratio (credit risk) reflects the average credit quality of the portfolio, which depends upon its distribution across sectors, rating categories and tenors. The ratios for financial guarantors are typically lower than other financial services companies, reflecting the industry's general underwriting practice of targeting only investment grade business and avoiding long-term exposures except in low risk sectors. AGC's portfolio credit quality ratio at 36 basis points was slightly weaker than the industry, reflecting a blend of higher risk reinsurance business, offset by the highly rated direct CDO/CDS business with an average credit quality of 43 and 17 basis points, respectively.

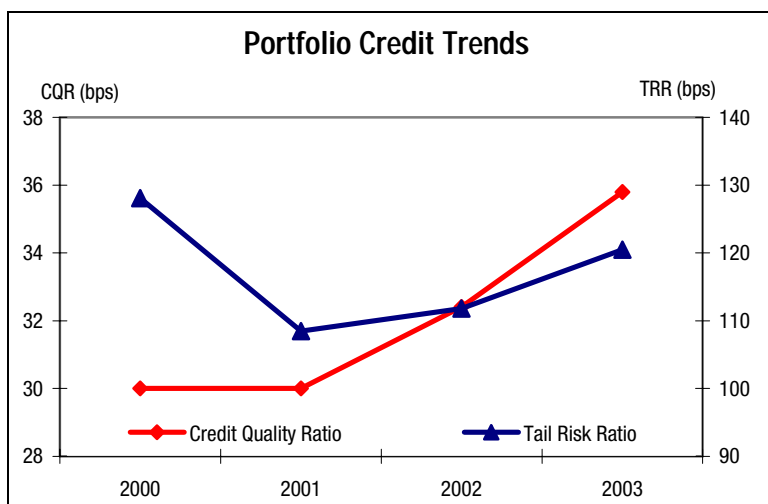
The tail risk ratio and dispersion ratio measures the relative importance of a guarantor's average credit quality and risk concentrations in determining its overall portfolio credit risk. Low tail risk and dispersion ratios are common within the financial guaranty industry, reflecting a high level of portfolio diversification. AGC's dispersion ratio at 3.37x was comparable to 3.40x for the industry as some lumpier CDS and Project Finance Initiative ("PFI") credits and concentrations in the healthcare sectors offset the diversification benefit of sourcing business from multiple primaries. The tail risk ratio at 120 bps was marginally worse than the 115 bps for the industry, in line with the trend observed in the credit quality ratio.



Among the riskier sectors for AGC are the international non-structured sector and the healthcare sector, which contribute more than twice their weight in par to tail level losses. International project finance transactions tend to be large in size, long in maturity and have underlying ratings in the low investment grade range, all of which impact tail risk. The structured sector (excluding CDO's) contributes about 1.5 times its weight in par to tail-level losses. The recent consumer ABS and EETC downgrades weigh heavily in the sector's contribution to expected losses. The lowest contributors to tail risk came from CDO's (despite recent downgrades) due to their high average ratings of Aa, and municipal exposures (excluding healthcare) due to low loss severities.



In terms of ratio trends over time, AGC's credit quality ratio deteriorated from 30 bps in 2001 to 36 bps in 2003, reflecting underlying rating downgrades in certain consumer asset classes and EETC transactions, and a higher proportion of international PFI-type transactions in the insured portfolio. The growth in AGC's highly rated direct CDO/CDS business has partially offset the deterioration in portfolio credit quality. The tail risk ratio has also increased, although at a slower rate.



Financial Profile

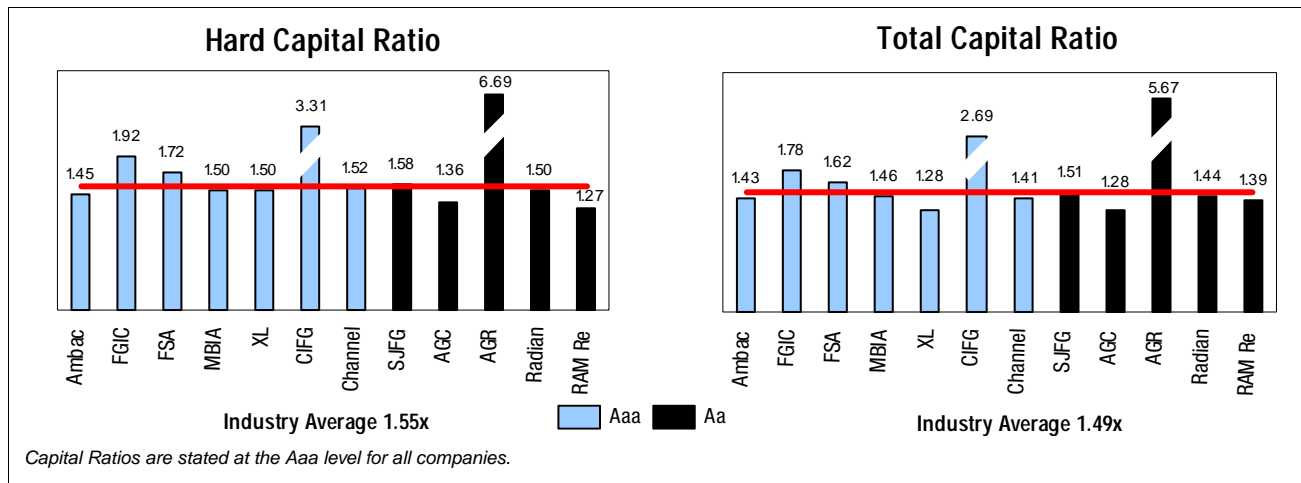
RISK ADJUSTED CAPITALIZATION

Key Capital Ratios- Definition of Terms

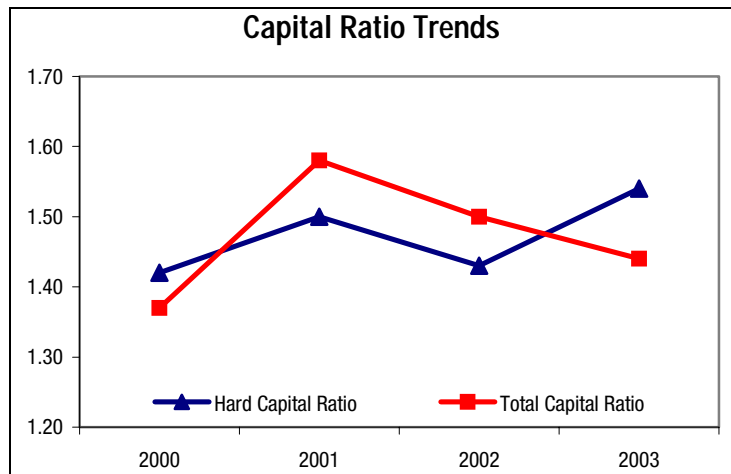
Hard Capital Ratio	Formula:	Hard Capital ÷ 99.9 Percentile Losses
	Concept:	Hard capital relative to the maximum amount of credit losses (present value) with 99.9% confidence. Measures the ability of a guarantor to meet stress-level losses with hard capital (i.e., qualified statutory capital, unearned premium reserves, & 85% of PV installment premiums.) <i>Note: The 99.9% loss level is used as the benchmark for Aaa-rated guarantors. For Aa-rated guarantors, a 99.5% confidence interval is applied.</i>
Total Capital Ratio	Formula:	Total Capital ÷ 99.99 Percentile Losses
	Concept:	Total capital relative to the maximum amount of credit losses (present value) with 99.99% confidence. Measures the ability of a guarantor to meet stress-level losses at a higher confidence interval with total capital (i.e., hard capital plus the discounted value of soft capital facilities.) <i>Note: The 99.99% loss level is used as the benchmark for Aaa-rated guarantors. For Aa-rated guarantors, a 99.9% confidence interval is applied.</i>

Year end results reflect rating actions through June of the following year

AGC's risk adjusted capitalization as expressed by the hard and total capital ratios which, at year end 2003 were 1.54x and 1.44x respectively, are comfortable at the Aa level. (Using a Aaa benchmark, these ratios would be 1.36x and 1.28x respectively.) If we compare the results across Moody's rated financial guarantors, AGC's capital ratios are below the Aaa industry average, although these ratios are expected to improve in this year's model run given AGC transferred post IPO some of its higher risk healthcare, single name CDS and layered loss transactions to its affiliate, AGR. In addition, AGC's exit from the trade credit business in the first quarter will further reduce the capital charge, thus improving the firm's capital ratios.



AGC's hard capital ratio at the Aa threshold has remained in the 1.40x to 1.55x range in the past 4 years while the total capital ratio has fluctuated more widely. For 2003, AGC's hard capital ratio improved as capital growth at 18% outweighed the 6% growth in insured par, while the total capital ratio fell due to a reduction in the company's soft capital arrangements. AGC is currently reviewing additional soft capital arrangements.



Capital Resources and Operating Leverage Peer Comparison

as of December 31, 2003 (\$ in millions)

	Ambac	AGC ¹	AGR ¹	Channel Re ²	CIFG	FGIC	FSA	MBIA	Radian Asset ^{1,3}	RAM Re	SJFG	XLCA/FA
Hard Capital	\$ 8,392	\$ 1,336	\$ 1,094	\$ 582	\$ 643	\$ 2,787	\$ 3,929	\$ 10,861	\$ 1,825	\$ 409	\$ 232	\$ 1,070
Total Capital	9,192	1,423	1,094	622	643	3,012	4,291	11,679	1,948	504	271	1,070
Net Par Outstanding (NPO)	425,854	78,399	9,114	25,976	12,345	206,745	294,390	541,026	60,411	19,775	8,891	42,874
Adjusted NPO	440,887	81,757	9,862	25,976	12,354	213,883	307,692	577,413	60,461	19,775	8,928	43,969
Adjusted NPO / Hard Capital (x)	52.5	61.2	9.0	44.7	19.2	76.7	78.3	53.2	33.1	48.4	38.5	41.1
Adjusted NPO / Total Capital (x)	48.0	57.4	9.0	41.8	19.2	71.0	71.7	49.4	31.0	39.2	33.0	41.1
Hard Capital Ratio (Aa Level) (x)	na	1.54	7.79	na	na	na	na	na	1.72	1.44	1.88	na
Total Capital Ratio (Aa Level) (x)	na	1.44	6.69	na	na	na	na	na	1.60	1.56	1.84	na
Hard Capital Ratio (Aaa Level) (x)	1.45	1.36	6.69	1.52	3.31	1.92	1.72	1.50	1.50	1.27	1.58	1.50
Total Capital Ratio (Aaa Level) (x)	1.43	1.28	5.67	1.41	2.69	1.78	1.62	1.46	1.44	1.39	1.51	1.28

1. Capital differs from publicly reported capital because statutory statements reflect the reinsurance portfolio on a one quarter lag.

2. Channel Re's numbers were as of February 2004.

3. Radian Asset's results are pro forma for Radian Asset and Radian Re combined and reflect the estimated impact of MBIA's clawback.

FINANCIAL LEVERAGE

In May, 2004, Assured Guaranty US Holdings Inc. issued \$200 million in 30-year debentures (rated A1 by Moody's), the proceeds of which were used to repay debt owed to a subsidiary of ACE Ltd. incurred in connection with the formation of Assured Guaranty Ltd. The ratings on these notes benefit from AGL's corporate guarantee of the debt and its ownership of AGR and its subsidiaries. The consolidated leverage ratios remain within a range of 12-16% for financial leverage and less than 120% for double leverage. AGC is expected to issue \$150 million of contingent capital securities in the near future to replace its bank soft capital facilities.

As of April 30, 2004	AGL	AG US Holdings
Financial Leverage	12.8%	19.3%
Double Leverage	115%	123%

PROFITABILITY

AGL's operating income (based on historical financials for the combined company and net of unrealized gains on derivative instruments) was \$127.1 million in 2003, up 8% from the prior year. This increase was related to growth in net premiums earned and a reduction in the company's expense ratio (as it wrote more direct business and negotiated lower commission rates on reinsurance assumed), but was partially offset by higher loss activity. In 2003, financial guaranty gross premiums written were \$239.9 million, up 82% from 2002. Reinsurance gross premiums written, which accounted for 70% of the company's total financial guaranty gross premiums written, doubled in 2003 due to an increase in municipal issuance and cessions on European PFI transactions, while direct premiums written increased by 50% mainly due to AGL writing more structured CDS. Investment income, at \$96.3 million, remained flat as lower interest rates and a more conservative investment profile at AGR was offset by the company's increasing investment balance. Loss and loss adjustment expenses attributable to the financial guaranty segment increased by \$11.3 million to \$42.0 million due to higher case reserves for certain CDO's assumed through reinsurance treaties. Operating expenses increased by 33% due to changes in staffing levels and increased resources as the company focused on growing the financial guaranty direct segment. Net income for the company was \$214.5 million in 2003 versus only \$72.6 million for 2002. This volatility in year-over-year net income was due to positive mark to market adjustment on derivative instruments in 2003 as corporate spreads tightened considerably during the year.

As a public company, earnings management has taken on a new emphasis for AGL. AGL's ROE was 13.2% for the first half of 2004, up 6% from the same period in 2003, benefiting from one-off and close out transactions. The operating ROE excluding after-tax gains on investments and after-tax gains on derivative financial instruments was 10.5%, down 2% from the first half of 2003. The company indicated that it is targeting ROE for full year 2004 and 2005 of 11%. Their goal of increasing annual ROE by 50 basis points is unlikely in 2005 due to reduced treaty reinsurance and the potential pressures of a difficult business conditions. While earnings are likely to be subdued for a couple of years as AGC develops its franchise as a primary financial guarantor, the earnings embedded in its existing portfolio should help to lessen the negative impact on the company's bottom line.

GAAP Financial Fundamentals

2003 Peer Comparison

(\$ in millions)	Ambac Financial	Assured ¹ Guaranty Ltd.	CIFG Holding	FGIC Corp.	FSA Holdings	MBIA Inc.	Radian Asset ²	RAM Re Group ³	SJFG	XLCA/FA ³
Net Income	619	215	1.3	195	291	814	62	21	6	72
Earnings Growth Rate	43.1%	195.6%	nm	-10.4%	60.5%	40.5%	-42.8%	48.8%	183.0%	12.7%
Financial Leverage	16.6%	5.2%	-	14.5%	17.5%	15.4%	-	-	-	-
Interest Coverage (x)	16.7	61.3	na	na	12.4	17.8	na	na	na	na
Return on Average Equity ⁴	16.8%	9.2%	0.4%	9.8%	13.4%	13.5%	5.5%	9.0%	6.1%	6.5%
Dividends Paid	45	35	-	396	3	111	0	0	0	0

nm = not meaningful, na = not applicable

1. Assured's high earnings growth rate in 2003 was driven by the impact of mark to market accounting.

2. Radian Assets' results are pro forma for Radian Asset Assurance and Radian Re and reflect the impact of a \$111 million loss relating to a manufactured housing transaction.

3. Returns on equity for RAM Re and XLCA/FA include equity infusions during 2003.

4. Return on average equity = (Net income minus unrealized gains and losses on derivative instruments and foreign exchange)/Average equity excluding unrealized gains and losses

Asset/Liability and Liquidity Risks Management

LIQUIDITY POSITION

AGC, like other financial guarantors, actively manages assets and liabilities in order to control its market, funding, and liquidity risks. The company has historically had modest liquidity needs, which have consisted of scheduled debt service payments on AGL's debt and dividend distributions to AGL, and contingent obligations to fund insured debt that has defaulted. AGC's exposure to the last category is fairly small, given the low historical frequency and severity of insured defaults and the nature of AGC's reinsurance contract, which protects it against the acceleration of principal payments in most segments. As the company has expanded beyond its traditional guaranty businesses into insurance of credit default swaps and non-guaranty activities, however, its liquidity needs have tended to increase.

In our opinion, AGC maintains sufficient sources of liquidity to pay unexpected claims as they occur, the timing of which can be somewhat unpredictable, as well as to cover its other expenses. The company's primary source of liquidity is the cash flow generated through its operations. In 2003, AGC's cash flow from operations stood at \$200 million.

AGC's other sources of liquidity include cash and cash equivalents, securities in the guarantors' investment portfolio and committed liquidity facilities. AGC maintains an investment portfolio of highly liquid government and municipal bonds that totaled \$1.1 billion as of December 31, 2003. In addition, the group recently increased its liquidity line with a consortium of banks led by ABN AMRO from \$140 million to \$250 million, replacing the \$125 million liquidity lines it had with ACE Limited.

RATING TRIGGERS ANALYSIS

For the reinsurance portfolio of AGC, rating triggers are embedded in virtually all of their reinsurance contracts with the primary guarantors. These rating triggers are generally based on a downgrade of the credit rating of AGC and/or on a reduction of the reinsurance benefits to the financial guarantor as evaluated by the rating agencies. Financial guarantors have substantial counterparty risk exposure to the reinsurers and have used these triggers as a tool to get more flexibility in managing this exposure. Generally, upon a trigger event, the financial guarantor has the option to terminate its reinsurance contracts on a cutoff (exposure and unearned premium returned to primary) or a runoff (no additional exposure) basis, or to increase ceding commissions. While these triggers are material in the sense that they can lead to negative changes in AGC's business franchise, they would not under most circumstances present a direct threat to its claims-paying ability. From a financial point of view, a cutoff termination may, in fact, improve the claims paying ability of a reinsurer by eliminating its exposure to losses from the recalled portfolio and, at least initially, result in greater capital resources for the remaining portfolio.

In addition to the triggers embedded in reinsurance contracts, AGC has collateral posting requirements with some counterparties for swaps and other derivative contracts under ISDA agreements. Typically, \$10-50 million of collateral could be required to be posted depending on mark to market valuations and where the guarantor's rating stands. Lower ratings typically require either lower posting thresholds or more collateral. Requirements to post collateral are bilateral and usually more restrictive for the lower rated party. Currently, AGC is not posting any collateral.

Separately, AGC's liquidity lines might not be renewed by the bank group if the guarantor were to experience significant downward rating pressure.

AGC is currently not in breach of any of its triggers, and we do not view these triggers as having a material impact on the financial health of AGC.

INVESTMENT PORTFOLIO

AGC's consolidated investment portfolio contains only nominal credit and moderate interest rate risk. Investments generally consist of high quality, marketable municipal, US agency, or US Treasury securities, thereby minimizing AGC's credit risk. Virtually all of the investments are in the investment grade range, mostly rated Aaa and are highly marketable. Equity and other more risky holdings represent less than 3% of the portfolio.

Assured Guaranty Corp's Cash and Invested Assets		
<i>As of December 31, 2003 (\$ in million)</i>		
Investment	Book Value	% of Total
U.S. Government Sec.	44	3.8%
Non-U.S. Government Sec.	5	0.4%
State and Local Government Bonds	711	61.6%
Corporate and Asset Backed	104	9.0%
Mortgage-Backed Sec.	192	16.7%
Equity	13	1.1%
Cash and ST Investment	68	5.9%
Other Invested Assets	17	1.5%
Total	1,154	100.0%

Assured Guaranty Corp.

Financial Strength Rating: Aa1

	2003	2002	2001	2000	1999
Insured Portfolio [1]					
Gross Exposure Outstanding	124,117	121,255	116,991	96,190	87,278
Net Exposure Outstanding	117,406	113,074	108,142	87,400	78,069
Gross Par Outstanding	83,490	78,565	75,436	62,121	55,314
Net Par Outstanding (NPO)	78,399	75,990	69,185	56,579	49,558
Adjusted NPO	81,762	76,408	na	na	na
Gross Par Written	14,612	17,900	18,366	9,684	9,223
Net Par Written	14,587	16,732	13,953	9,509	8,180
Capitalization (SAP)					
Policyholders' Surplus	256	287	334	323	296
Contingency Reserve	400	307	223	181	153
Adjusted Qualified Statutory Capital (QSC) [2]	656	594	557	501	445
Capital Charge [3]	103	(95)	(14)	(8)	(8)
Unearned Premium Reserve	467	370	352	330	308
Loss and Loss Adj. Expenses Reserve	55	41	21	15	16
PV of installment premiums, net ceding commission	293	197	114	95	80
Hard Capital [4]	1,324	1,077	1,013	919	829
Soft Capital	255	415	450	250	200
Total Capital [5]	1,411	1,276	1,234	1,044	929
Key Statutory Data					
Total Assets	1,208	1,043	949	876	792
Cash and Invested Assets	1,155	979	906	849	765
Gross Premiums Written	219	155	120	86	59
Net Premiums Written	256	123	88	79	54
Net Premiums Earned	159	105	66	57	58
Losses and Loss Adj. Expenses Incurred	41	37	12	0	-3
Other Underwriting Expenses Incurred	82	57	45	37	46
Net Underwriting Gain (Loss)	36	11	10	21	16
Net Investment Income Earned	47	47	48	50	45
Realized Capital Gains	2	4	1	0	-8
Pretax Operating Income	87	64	60	71	55
Net Income	67	46	45	60	42
Dividends Paid to Stockholders	10	8	5	6	5
Operating Cash Flow	200	72	66	83	33
Expense Ratio (%)	32.0	45.9	50.8	46.7	85.6
Loss Ratio (%)	25.9	35.4	18.3	(0.7)	(5.8)
Combined Ratio (%)	57.9	81.2	69.2	46.0	79.7
Dividends Paid / Net Income (%)	15.0	17.3	12.2	9.1	11.9
Pretax Operating Income / Average NPO (bps)	11.2	8.8	9.5	13.5	13.0
Net Premiums Earned / Average NPO (bps)	20.6	14.5	10.6	10.8	12.2
Liquidity					
Cash and Short Term Investments	68	33	43	59	73
Liquidity Lines	265	225	125	50	--
Cash and Invested Assets / Total Assets (%)	95.7	93.9	95.5	96.9	96.6
Leverage					
Adjusted Net Par Outstanding / Hard Capital (x)	61.8	70.9	na	na	na
Adjusted Net Par Outstanding / Total Capital (x)	57.9	59.9	na	na	na

Assured Guaranty Corp.

Financial Strength Rating: Aa1

Cash and Invested Assets (SAP) (% of Total)

U.S. Government Securities	4.1	7.7	0.4	23.4	16.7
Non-U.S. Government Securities	0.0	0.2	0.2	0.5	0.7
State and Local Government Bonds	62.1	56.5	51.6	50.0	55.3
Corporate	8.5	9.0	8.0	15.4	13.6
Asset Backed and Mortgage-backed Securities	17.3	18.9	30.1	0	0
Total Bonds	92.0	92.3	90.4	89.4	86.3
Equity (Common and Preferred Stock)	1.1	2.3	3.0	1.2	2.2
Cash	0.8	0.6	0.9	7.0	9.5
Short Term Investments	4.7	2.9	3.9	na	na
Other Invested Assets	1.4	2.0	1.9	2.5	2.0

Reinsurance (% of Gross Ceded)

Par Outstanding	6.1	3.3	8.3	8.9	10.4
Par Written	0.2	6.5	24.0	1.8	11.3
Premiums Written	-16.7	20.3	26.6	8.1	8.7

Key GAAP Data (Assured Guaranty Ltd.)

Total Assets	2,858	2,720	na	na	na
Outstanding Debt	75	75	na	na	na
Stockholders' Equity	1,438	1,257	na	na	na
Net Income	215	73	na	na	na
Expense Ratio (%)	32.1	34.1	na	na	na
Loss Ratio (%)	48.6	46.5	na	na	na
Combined Ratio (%)	80.7	80.6	na	na	na
Return on Average Equity (%)	9.2	6.6	na	na	na
Interest Coverage (x)	61.3	8.9	na	na	na
Financial Leverage (%)	5.2	6.0	na	na	na

Note: All figures are in \$ millions except percentages and ratios. NA = Not Available

[1] Insured Par is based on company reported number and the reinsurance portfolio reported with a one quarter lag. Adjusted NPO is the par number Moody's used in analyzing the risk in the portfolio in which we adjusted for the one quarter lag.

[2] Qualified statutory capital less investments in affiliates.

[3] Moody's has assessed capital charges for Ace Guaranty Re's trade credit business and investment portfolio.

[4] Hard Capital resources consist of Qualified Statutory Capital, Unearned Premium Reserves, Loss and Loss Adjustment Expense Reserves, 85% Present Value of Installment Premiums, and less capital charges for its investment portfolio and trade credit business

[5] Total Capital resources are the sum of Hard Capital, Contingent Capital Market Facilities and discounted depression lines (discounted to reflect its limited value in certain stress scenarios.)

Related Research

Special Comments:

[Moody's 2003 Review and 2004 Outlook for the U.S. Financial Guaranty Industry, December 2003 \(#80778\)](#)

[Moody's Portfolio Risk Model Results Update, June 2004 \(#87560\)](#)

Rating Methodology:

[Moody's Rating Methodology for Financial Guaranty Insurance Companies, December 2003 \(#80806\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Authors

*Arlene Isaacs-Lowe
Deven Kapoor*

Senior Associate

Kendra Tan

Production Specialist

Cassina Brooks

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