

This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moody's.com. [Click here to link.](#)

Contact	Phone
New York	
Arlene Isaacs-Lowe	1.212.553.1653
Deven Kapoor	
Jack Dorer	

Assured Guaranty Re International Ltd

Summary Opinion

RATING RATIONALE

The Aa2 Insurance Financial Strength Rating (IFSR) of Assured Guaranty Re International Ltd. (AGR), formerly ACE Capital Re International Limited, and the Aa1 IFSR of its sister company, Assured Guaranty Corp. (AGC) 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, AGC and AGR, 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 relevant industry experience – 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 sig-

nificant 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

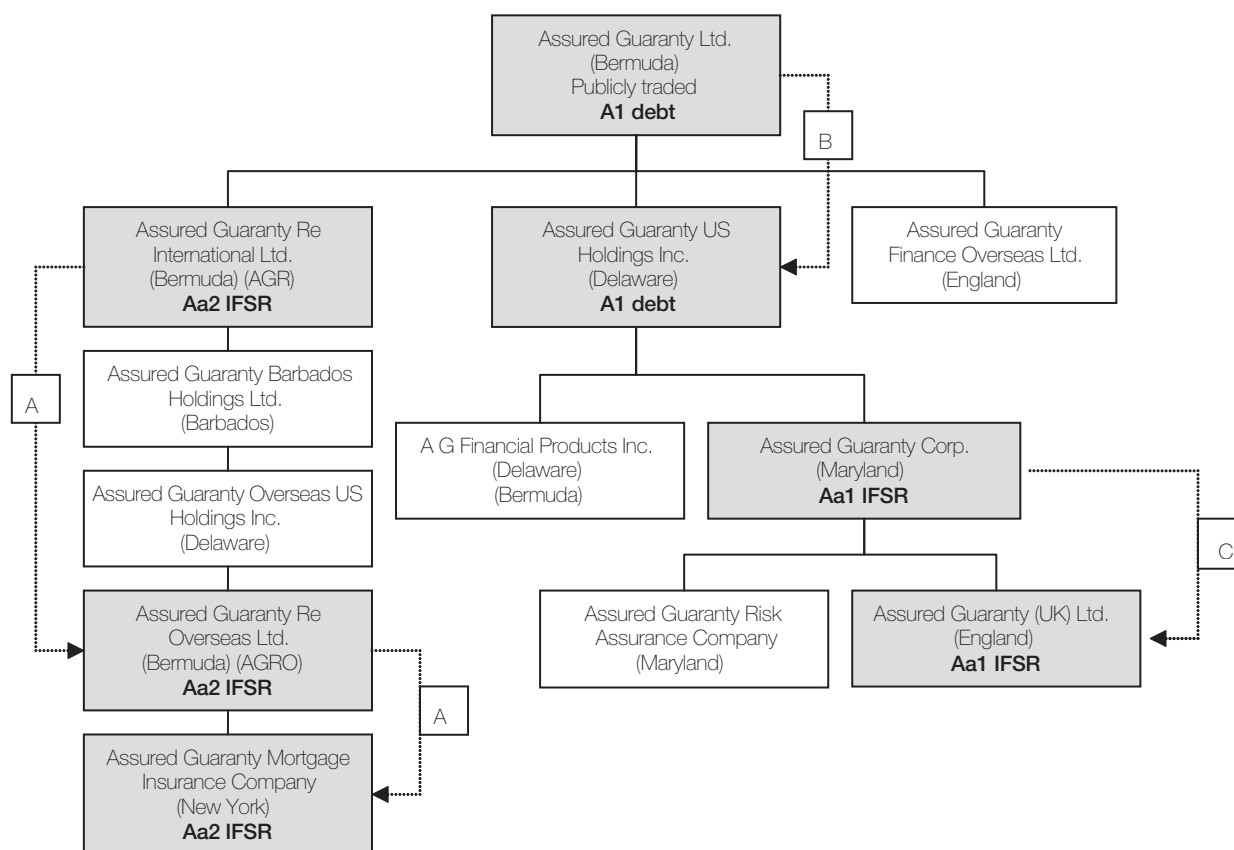
AGR is a wholly owned subsidiary of Assured Guaranty Limited (AGL), a newly formed publicly listed company [NYSE: AGO]. The group had a successful IPO in April 2004 completing the spin-off of ACE's financial guaranty business. ACE Limited currently retains 35% of AGL's stock. Under the group's new strategic direction, the two main entities, AGC and 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 continues to be pursued by a subsidiary of AGR -- Assured Guaranty Mortgage Insurance Company (AGM) (IFSR Aa2)

In addition to New York based AGM, AGR owns three other subsidiaries - Bermuda based Assured Guaranty Re Overseas Ltd.(Aa2 IFSR; formerly ACE Capital Re Overseas Limited), Barbados-based Assured Guaranty Barbados Holdings Ltd. (not rated), and Delaware based Assured Guaranty Overseas Us Holdings Inc. (not rated). AGR started its financial guaranty activities in 2002. Following is a listing of AGR's key business lines before the IPO, many of which have either been transferred or are in run-off.:

- Mortgage Insurance –remains a key business line
- Credit Default Swap – existing deals remain in the insured book, esoteric deals were unwound at a profit prior to the IPO. Future direct business will be carried out in AGC.
- Trade Credit – Stopped writing new business in 2002. 100% of runoff book novated or ceded to ACE post-IPO
- Title – Capital Title was sold to ACE in March 2004 after assigning a keepwell. Remaining insurance 100% novated or ceded to ACE Bermuda.
- Other - Participation in Auto Residual Value, Life Accident & Health and Residual Counterparty Risk Insurance on an opportunistic basis. All of these business were ceded to ACE.

AGR will continue to share personnel and other key financial guaranty resources with AGC. As part of the ownership and strategic changes, the group has had a major staffing reduction and reorganization, with a senior management team that is, to a great extent, new to the company. 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 Assured Guaranty International Ltd. 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).

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 increasingly be 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.

AGR's strategy is to become a monoline financial guaranty reinsurer, by pursuing relationships with the major monoline primary companies, and by taking advantage of additional opportunities in the monoline reinsurance sector. The firm will also continue to pursue a somewhat opportunistic strategy in mortgage (re)insurance, through AGM. The overall underwriting focus is on exposures that are broadly consistent with risks that have been underwritten by AGC. AGR will also reinsure a portion of AGC's primary business as part of an effort to efficiently manage its capital.

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 April, 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

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 may involve selling 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, AGR underwrites to an "investment-grade" standard, where in the event of a claim the severity of loss is low.

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. The

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 in later in 2004.

company has some underwriting capabilities for analyzing facultative reinsurance but it is largely dependent on quality of underwriting at the primaries from which it assumes business.

SURVEILLANCE CAPABILITIES

A key ingredient to the success of any financial guaranty company is its surveillance and loss remediation skills. 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. AGR like other reinsurers relies heavily on surveillance efforts and workout expertise of the primary companies with which it does business.

PORTFOLIO RISK MANAGEMENT

AGR has developed, and continually seeks to revise, conservative underwriting guidelines and limits to manage its portfolio risk. These risk management guidelines cover both individual transaction limits, as well as aggregate portfolio limits including exposure to individual countries. AGR also incorporates estimated risk correlations to calculate overall exposure limits to single risks.

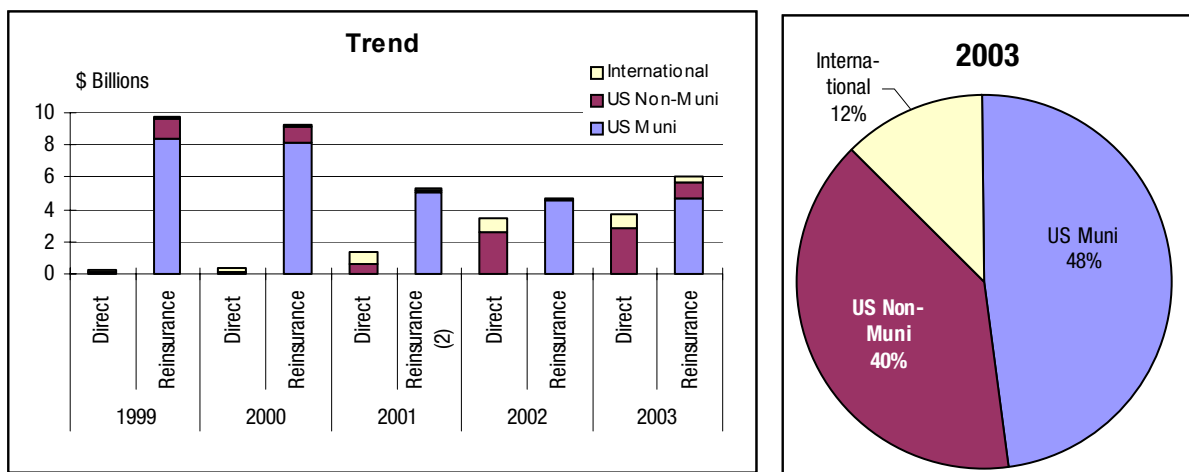
Diligent portfolio risk management is critical for any reinsurance company, particularly when its business strategy is transitioning. Managing single large risks is probably the most important component of a firm's portfolio risk management. Along with its alignment with AGC, AGR will have to continue to develop strong relationships with the primaries while avoiding a disproportionately larger share of higher-risk transactions.

Insured Portfolio

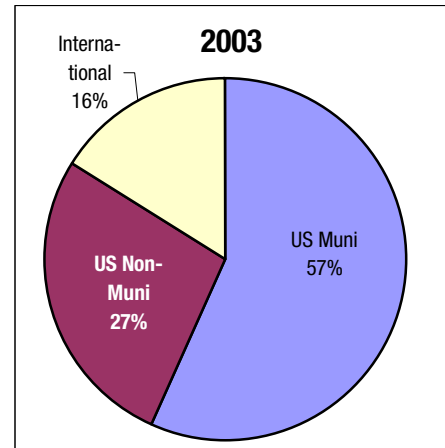
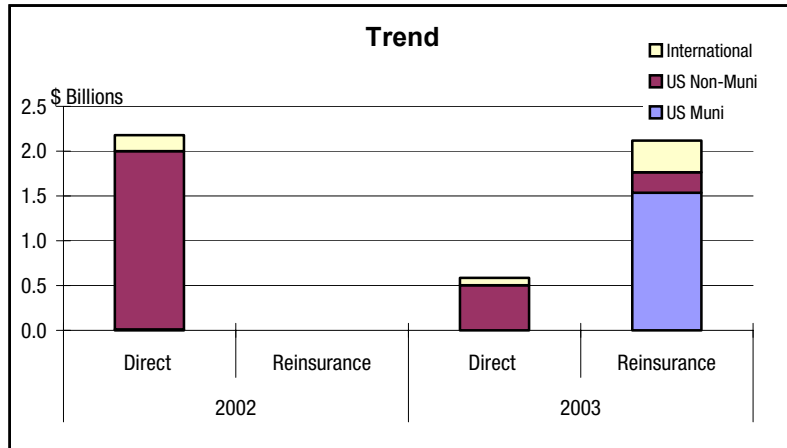
OVERVIEW

With most non financial guaranty exposure gone, AGR has a relatively small outstanding portfolio of under \$10 billion. Going forward, par outstanding is expected to increase reflecting the company's new role as the main conduit for the group's reinsurance business. AGR currently has a 20% quota share treaty with Ambac (in 2004, Ambac elected not to renew the 20% quota share with AGC) and a 12% quota share treaty with FSA. MBIA recently decided not to renew their treaty with AGR or with AGC. FGIC, consistent with its current reinsurance philosophy only uses reinsurance on a facultative basis. In addition, AGC will cede between 20-30% of its future business to AGR. Future direct activities of AGR would largely be limited to mortgage insurance with the current portfolio of investment grade structured credit default swaps expected to run off. Following the IPO, AGR assumed a portfolio of single name corporate CDS exposures from its sister company AGC and is expected to assume approximately 30% of AGC's health-care portfolio in the third quarter.

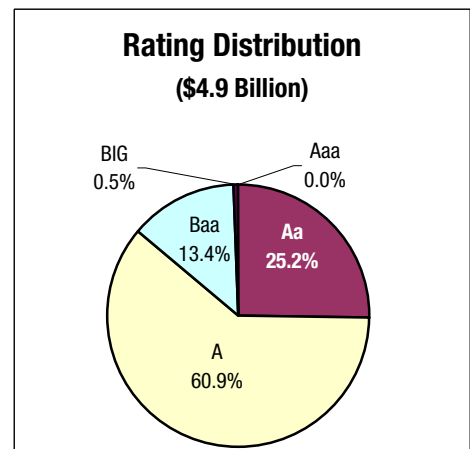
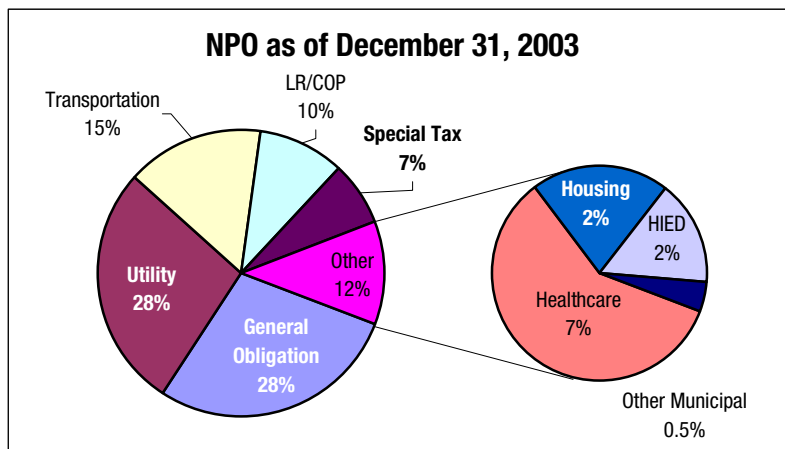
Net Par Outstanding



Gross Par Written



Municipal Portfolio NPO as of December 31, 2003

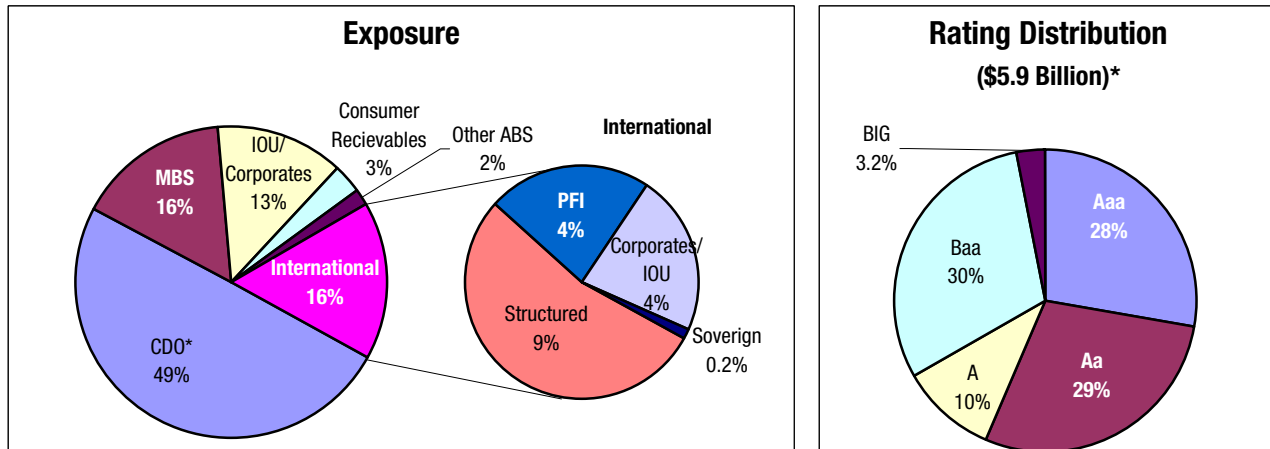


Of the municipal portfolio:

- 45% is in the tax-backed sectors – general obligations, special tax, and lease revenue – which comprise the lowest risk sectors in the portfolio.
- 28% is in 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.
- 22% of the exposure is in riskier sectors like healthcare and transportation related exposures (such as airports) that experienced some stress in the past 3 years. The proportion of healthcare exposure within the overall portfolio is expected to increase from the level at year-end 2003, as AGC will transferred some of its healthcare cessions to AGR later this year.

Over 86% of AGR's municipal exposure is in the A-Aa range with minimal non investment grade exposure.

US Non-Municipal and International Portfolio
(NPO as of December 31, 2003)



* AGR's CDO portfolio reflects a high attachment point \$1 Billion excess of loss cession from AGC which is not reflected in the model par as it involves negligible risk transfer.

Of the US non-municipal and international portfolio:

- Credit default swaps of CDO's and other structured securities, including CMBS, accounted for the bulk of AGR's structured exposure. While this is predominantly highly rated Aaa-Aa business that has improved AGR's rating distribution, it is sensitive to the performance of the overall market.
- AGR's investment grade equity CDO business is in runoff. Post IPO, AGR assumed AGC's single name corporate credit default swap business and other transactions that AGC reinsured on a layered loss basis. The group has deemphasized both these activities.
- Non-US exposure accounts for 16% of AGR's total exposure, 70% of which is in the form of reinsurance.

Consistent with AGC's portfolio, 57% of AGR's non-municipal portfolio is Aa-Aaa rated due to the historical emphasis on CDS business. The risk characteristics of CDS are generally 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. In addition, mark-to-market of CDS exposure leads to volatility in reported earnings and AGR may need to post collateral with some of its counterparties should market spreads widen significantly. CDS exposure is likely to decline as AGR focuses on building a reinsurance franchise.

CURRENCY RISK

16% of AGR's exposure is 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 denominated claim. While this is not currently an issue given the small size of the exposure in force, it could become more of a factor if the company fails to balance its currency risks as its international exposure grows.

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 has established single risk limits at both the individual company levels (AGC and AGR) and the group level. In Moodys view, worst case loss (as opposed to the generally larger net par) on any single transaction should not exceed 10% of the firms' hard capital. No AGR transaction currently exceeds this guideline.

Largest Single Risk Exposures
As of December 31, 2003 (\$ millions)

Issuer	Bond Type	Net Par	Par as a % of Hard Capital	Rating*
Municipal				
Long Island Power Authority	Utility Electric & Gas	252	23%	Baa1
California State General Obligation	GO-State	241	22%	A3
New York City General Obligation	GO-Local	226	21%	A2
Wisconsin State Master Lease Cert Of Participation	LR/COP-State	223	20%	A1
Denver Colorado Airport System	Airports	160	15%	A2
Non-Municipal				
Synthetic CDO - IG Corporate	CDO/CDS	200	18%	—
Private Commercial Receivable	ABS - Other	140	13%	—
Synthetic CDO - IG Corporate	CDO/CDS	116	11%	—
Synthetic CDO - IG ABS	CDO/CDS	113	10%	—
Private Housing Index Instrument	Residential First Mortgage	102	9%	—
* Issuer name and ratings which are not listed are not public				

LARGEST BELOW INVESTMENT GRADE EXPOSURES

AGR's ten largest non-investment grade transactions are provided in the table below.

AGR's Selective Largest Non Investment Grade Exposures

As of December 31, 2003 (\$ millions)

Bond Type	Net Par Outstanding	Rating*
Home Equity MBS	34	—
Home Equity MBS	30	—
Emerging Market MBS	25	Ca
GO-Local	22	Ba1
Home Equity MBS	17	—
Credit Card ABS	15	—
Emerging Market MBS	14	Ca
Home Equity MBS	4	—
Servicing Receivables Securitization	0.6	—
MBS NIM	0.6	—
* Ratings not shown on non public transactions		

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.

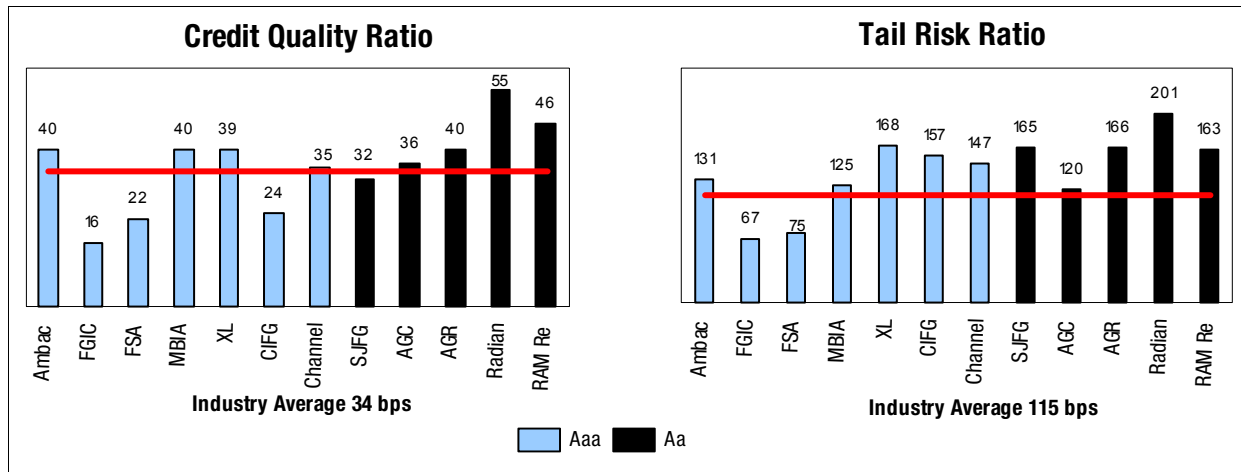
The tail risk is an important indicator of a company's claim paying capability under extraordinarily adverse circumstances and is, therefore, a useful indicator of financial strength. However, other factors are important as well, including the potential credit losses that are likely to occur under more 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

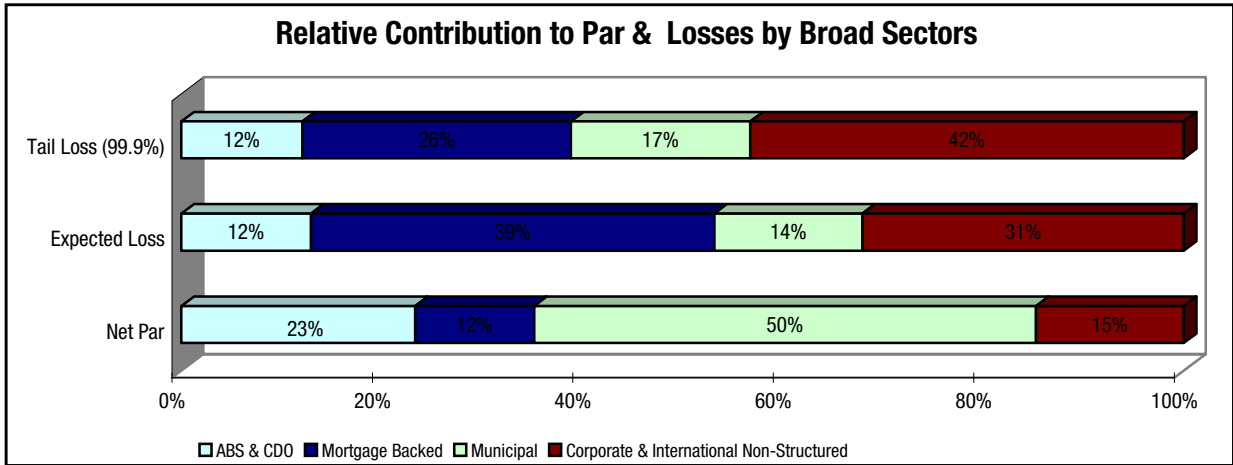
Credit Quality Ratio	Formula: $\text{Expected Losses} \div \text{Adjusted Net Par Outstanding}$ Concept: Expected present value of losses imbedded in the insured portfolio relative to net par outstanding, adjusted for the benefit received from reinsurance (i.e., the average expected loss rate on the portfolio). This ratio indicates a portfolio's average credit quality, which depends upon its distribution across sectors, rating categories and tenors.
Tail Risk Ratio	Formula: $99.9 \text{ Percentile Losses} \div \text{Adjusted Net Par Outstanding}$ Concept: 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.
Dispersion Ratio	Formula: $99.9 \text{ Percentile Losses} \div \text{Expected Losses}$ Concept: 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.

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

AGR's credit quality ratio at 40 bps is not as good as the industry average for Moodys rated financial guarantors (combined average for primary and reinsurance companies), but the credit quality is better than other reinsurance companies due to the positive contribution of the firm's large highly rated CDS portfolio. The firm dispersion ratio at 4.14 times and tail risk ratio at 166 bps are relatively high reflecting the small size of the portfolio and limited portfolio diversification.



The riskiest financial guaranty sectors for AGR are the mortgage backed sector and the international non-structured sector, which disproportionately contribute to tail-level losses. AGR has written CDS on some non standard high risk residential mortgage transactions and has exposure to international project finance deals that tend to be complex, have low investment grade ratings and long maturities. The lowest contributor to tail risk was the municipal sector that accounted for half of the par outstanding, but due to low loss severities, explained less than a fifth of the tail risk.



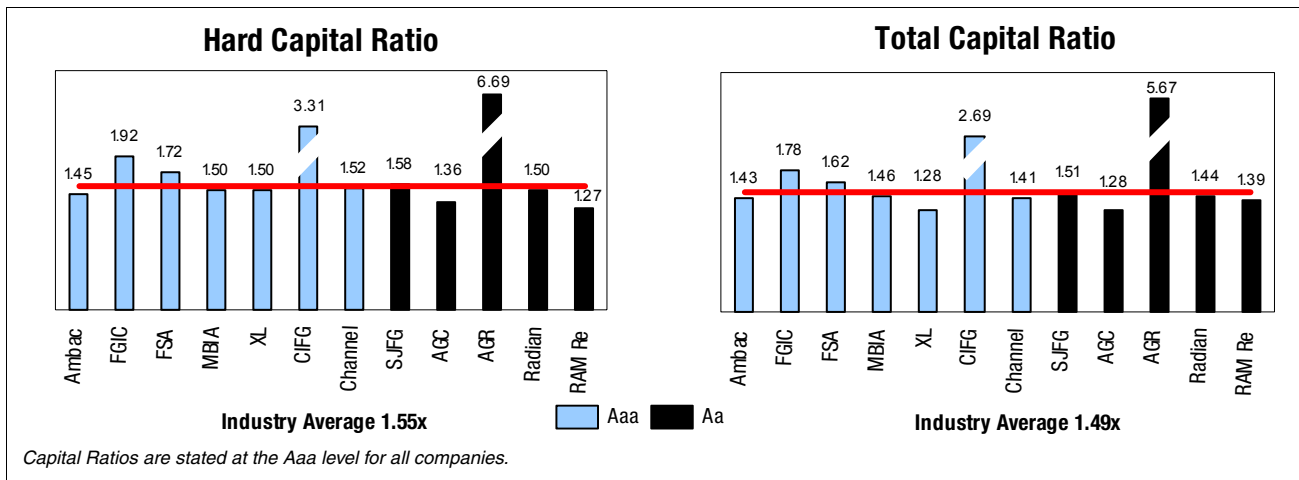
The firm's portfolio quality ratios are expected to deteriorate in the near term despite the firm's CDS portfolio running off as a result of its assumption of some high risk layered exposures, single name CDS and healthcare cessions from AGC. Credit ratios are also likely to remain volatile until AGR's portfolio stabilizes under its new strategy. Over time, AGR's portfolio characteristics should become more aligned with the ratios of the primaries from which it assumes business, although the firm will have to remain cautious and ensure that it minimizes the adverse selection that is inherent in a reinsurance relationship.

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, and 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



AGR's risk adjusted capitalization ratios are very strong, reflecting the reinsurer's stage of development. The company's hard capital ratio of 7.79x and its total capital ratio of 6.69x (both measured at the Aa benchmark) reflect significant underdeployment of capital. These capital ratios are expected to come down as the firm grows its portfolio, stabilizing at or near the industry average.

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 Limited 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 Limited incurred in connection with the formation of Assured Guaranty Limited. The rating on these notes benefits 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.

As of April, 2004	AGL	AGC 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 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

In general, AGR's exposure to liquidity risk is limited, despite some single name CDS exposure that has been assumed from AGC. Unexpected liquidity needs have been rare, given the low incidence and severity of defaults associated with the insured portfolio. As AGR expands into new asset classes, the liquidity needs of the business will increase. A substantial portion of AGR's assets are held in trust accounts. This structure could have liquidity implications if claims paid for reinsurance assumed from a given primary were to exceed the amount held in trust. If this were to occur, AGR would have to draw on its unencumbered assets to meet the liquidity requirement.

AGR does not have the same dividend constraints as AGC and will likely provide the majority of the cash required to fund AGL's shareholder dividends.

RATING TRIGGERS ANALYSIS

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 AGR 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 cut-off (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 AGR'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, AGR has collateral posting requirements with some counterparties for swaps and other derivative contracts under ISDA agreements. 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. Additionally triggers might exist in bank provided liquidity facilities that are typically 364 days in tenor, leaving the possibility that the bank may not renew the line should the guarantor be downgraded.

AGR 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 AGR.

INVESTMENT PORTFOLIO

AGR's investment portfolio contains only nominal credit and moderate interest rate risk. Investments generally consists of high quality municipal, US agency, or US Treasury securities, thereby minimizing AGR's credit risk. Virtually all holdings are in the investment grade range, mostly rated Aaa, and are highly marketable

Assured Guaranty Re's Cash and Invested Assets		
As of December 31, 2003 (\$ in million)		
Investment	FMV	% of Total
U.S. Government Bonds	221	21.7%
Non-U.S. Government Bonds	0.2	0.0%
State & Local Bonds	92	9.0%
Corporate Bonds & Asset-Backed Securities	258	25.4%
Other: Mortgage-Backed Securities	354	34.8%
Short-term investment	81	8.0%
Cash	10	1.0%
Other invested asset	1	0.1%
Total	1,017	100%

Summary Financial Statistics

Assured Guaranty Re International Ltd.

2003

Financial Strength Rating: Aa2

Insured Portfolio [1]

Gross Exposure Outstanding	na
Net Exposure Outstanding	na
Gross Par Outstanding	15,827
Net Financial Guaranty Par Outstanding	9,125
Mortgage Insurance Par Outstanding	2,157
Total Net Par Outstanding (NPO)	11,282
Adjusted NPO	9,862
Gross Par Written	2,701
Net Par Written	2,701

Capitalization (SAP)

Policyholders' Surplus	na
Contingency Reserve	na
Qualified Statutory Capital (QSC)	560
Capital Charge [2]	(141)
Unearned Premium Reserve	233
Loss and Loss Adj. Expenses Reserve	390
PV of installment premiums, net ceding commission	61
Hard Capital [3]	1,094
Soft Capital	-
Total Capital [4]	1,094

Key Statutory Data

Total Assets	1,367
Cash and Invested Assets	1,016
Gross Premiums Written	140
Net Premiums Written	233
Net Premiums Earned	133
Losses and Loss Adj. Expenses Incurred	90
Other Underwriting Expenses Incurred	45
Net Underwriting Gain (Loss)	(1)
Net Investment Income Earned	49
Realized Capital Gains	59
Pretax Operating Income	108
Net Income	116
Dividends Paid to Stockholders	25
Operating Cash Flow	na

33.9

Expense Ratio (%)

Loss Ratio (%)	67.1
Combined Ratio (%)	101.0
Dividends Paid / Net Income (%)	21.6
Pretax Operating Income / Average NPO (bps)	96.1
Net Premiums Earned / Average NPO (bps)	118.3

Liquidity

Cash and Short Term Investments	90
Liquidity Lines	50
Cash and Invested Assets / Total Assets (%)	74.3

Leverage

Net Par Outstanding / Hard Capital (x)	10.3
Net Par Outstanding / Total Capital (x)	10.3

Assured Guaranty Re International Ltd.

2003

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

U.S. Government Securities	21.7
Non-U.S. Government Securities	0.0
State and Local Government Bonds	9.1
Corporate	6.0
Asset Backed and Mortgage-backed Securities	54.1
Total Bonds	91.0
Equity (Common and Preferred Stock)	0.0
Cash	0.9
Short Term Investments	7.9
Other Invested Assets	0.1

Reinsurance (% of Gross Ceded)

Par Outstanding	28.7
Par Written	0.0
Premiums Written	-66.9

Key GAAP Data (Assured Guaranty Ltd.)

Total Assets	2,858
Outstanding Debt	75
Stockholders' Equity	1,438
Net Income	215
Expense Ratio (%)	32.1
Loss Ratio (%)	48.6
Combined Ratio (%)	80.7
Return on Average Equity (%)	9.2%
Interest Coverage (x)	61.3
Financial Leverage (%)	5.2

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

[1] [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] Moody's has assessed capital charges for Assured Guaranty Re International's investment portfolio and mortgage insurance portfolio.

[3] 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 mortgage insurance portfolio.

[4] 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](#)

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Authors	Senior Associate	Senior Production Associate
<i>Arlene Isaacs-Lowe Deven Kapoor</i>	<i>Kendra Tan</i>	<i>Mark A. Lee</i>

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