Credit Opinion: Assured Guaranty Re Ltd.

Assured Guaranty Re Ltd.

Bermuda

Ratings

Category	**Moody's Rating**
Rating Outlook	STA
Insurance Financial Strength	Aa3
Assured Guaranty Ltd (Bermuda)	
Rating Outlook	STA
LT Issuer Rating	A2
Assured Guaranty Corp	
Rating Outlook	STA
Insurance Financial Strength	Aa2
Assured Guaranty (UK) Ltd	
Rating Outlook	STA
Insurance Financial Strength	Aa2
Assured Guaranty US Holdings, Inc.	
Rating Outlook	STA
BACKED Senior Unsecured	A2
BACKED Junior Subordinate	A3

Contacts

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Key Indicators

Assured Guaranty Re Ltd.

($ mil.)	**2Q 2008**	**2007**	**2006**	**2005**	**2004**
Gross Par Written ($ million)	**14,501**	**47,101**	**21,946**	**15,522**	**16,363**
Gross Premiums Written ($ million)	**175**	**310**	**203.3**	**143.8**	**82.9**
Net Par Outstanding ($ million) [1]	**119,022**	**107,369**	**43,180**	**38,582**	**12,935**
Hard Capital ($ million)	**2,320**	**2,022**	**1,277**	**1,073**	**995**
Net Income ($ million) (GAAP))	**98.4**	**-35.5**	**113.1**	**136.6**	**101.6**
Strategy & Franchise Value					
% of Industry Net Par Outstanding [2]	**4.13%**	**2.96%**	**1.80%**	**1.60%**	**0.60%**
% of Industry Gross Par Written	**42.0%**	**53.90%**	**38.60%**	**40.10%**	**n/a**
Portfolio Characteristics					
Credit Risk Ratio [3]	**67.1bps**	**50.3bps**	**44.8bps**	**43.3bps**	**36.1bps**
Tail Risk Ratio [3]	**169.4bps**	**161.6bps**	**155.7bps**	**150.1bps**	**122.9bps**
Capital Adequacy					
Hard Capital Ratio Aa	**NA**	**NA**	**1.52x**	**1.59x**	**2.18x**
Total Capital Ratio Aa	**NA**	**NA**	**1.35x**	**1.42x**	**1.93x**
Par Reinsured	**0.32%**	**0.38%**	**0.76%**	**n/a**	**n/a**
Profitability					
Return on Equity [4]	**6.31%**	**11.66%**	**9.70%**	**12.50%**	**10.60%**
Loss Ratio (GAAP)	**64.10%**	**18.40%**	**-12.70%**	**-73.60%**	**-50.60%**
Expense Ratio (GAAP)	**38.40%**	**42.60%**	**47.20%**	**42.20%**	**62.80%**
Financial Flexibility					

Earnings Coverage	**4.16x**	**8.52x**	**14.5x**	**18.1x**	**16.8x**
Cash Flow Coverage	**8.36x**	**7.81x**	**NA**	**NA**	**NA**
Double Leverage	**1.15x**	**1.20x**	**1.13x**	**1.12x**	**n/a**

[1] NPO includes the mortgage insurance portfolio of Assured Guaranty Mortgage Insurance [2] Excludes NPO ceded by Assured Guaranty Corp [3] Model ratios are as of 6/30/08 [4] Net of impact of gain/(loss) on derivatives for the period

Opinion

SUMMARY RATING RATIONALE

Assured Guaranty Re Ltd. (AG Re) is a Bermuda based financial guaranty reinsurer with an insurance financial strength rating (IFSR) of Aa3. The rating outlook is stable. AG Re is the parent company of Aa3-rated Assured Guaranty Re Overseas Ltd., a financial guaranty reinsurer, Aa3-rated Assured Guaranty Mortgage Insurance Company, a mortgage guaranty reinsurer, and is an affiliate of Aa2-rated Assured Guaranty Corp. (AGC), which writes primary financial guaranty insurance. AG Re is wholly owned by Assured Guaranty Ltd. (issuer rating A2), the ultimate holding company of the Assured Group.

The Aa3 ratings of Assured Guaranty Re Ltd. and its wholly owned subsidiaries (collectively AG Re) reflect its strong competitive position as the leading provider of financial guaranty reinsurance, and its solid underwriting and risk-adjusted capitalization. These strengths are tempered by AG Re's high operating leverage and exposure to weakness inherent in the financial guaranty business model.

In November 2008, Moody's downgraded the ratings of both AG Re and AGC, reflecting four primary factors. First, we see fewer new business opportunities and weaker confidence in the industry overall. Second, we believe the group's business position and financial flexibility may be quite sensitive to potential changes in its risk profile. Third is the impact that large and potentially correlated risk exposures could have on the company's financial strength should the performance of those exposures deteriorate, particularly in light of the current economic environment. Finally, though somewhat less significant, is Moody's expectation of greater losses on mortgage related exposures, resulting in a modest deterioration of capital adequacy at both AGC and AG Re.

AG Re continues to benefit from its strong competitive position and affiliation with AGC. As a reinsurer, however, AG Re's franchise is not only impacted by the broader challenges facing the financial guaranty industry, but also by its reliance on the business volumes and capital management strategies of AGC and other primary guarantors. With few active 3rd party customers, Moody's believes that AG Re's principal role is likely to be as a vehicle through which AGC can manage its own capital position. Under stress scenarios affecting both AGC and AG Re, the group may have greater incentive to support AGC than AG Re.

Credit Strengths

Largest and highest rated provider of financial guaranty reinsurance

Disciplined underwriting and conservative risk management culture

No exposure to recent vintage ABS CDOs and modest exposure to higher risk RMBS

Strong risk adjusted capitalization

Credit Challenges

Sensitivity of business prospects to primary financial guarantors

Exposure to AGC's large and higher-risk transactions

Financial flexibility is highly sensitive to changes in risk profile

Rating Outlook

The stable rating outlook reflects Moody's view that the aggregate capital resources of AG Re (including statutory contingency reserves and contingent capital) provide a substantial capital cushion above Moody's expected loss levels. Assured's disciplined underwriting strategy and recent reinsurance of portfolios comprised of municipal transactions have resulted in a generally high-quality and diversified insured portfolio with modest amounts of mortgage-related exposures.

What Could Change the Rating - Up

Sustained demand for reinsurance from a more diverse and stable client base

Evidence of highly reliable access to new funding under reasonable terms in stress scenarios

Structural elements that protect against the removal of capital and risk management resources in a run-off scenario

What Could Change the Rating - Down

Deterioration in portfolio credit characteristics

Sustained decrease in hard and total capital ratios below 1.3 times, at the Aa3 confidence level, without corrective action

Extensive diversification into higher-risk business

Deterioration in competitive environment or product demand

Insurance Financial Strength Rating

Moody's rates AG Re Aa3 for insurance financial strength, which is in line with the rating indicated by Moody's insurance financial strength rating scorecard. The key factors currently influencing the rating and outlook are:

Factor 1: Franchise Value and Strategy: A

Moody's scores AG Re single-A for franchise value and strategy, reflecting AG Re's solid competitive position as the largest monoline reinsurer. Despite reduced primary financial guaranty volume for the industry overall, AG Re has recently written business on an opportunistic basis by reinsuring portfolios of mostly municipal credits that were ceded by primary financial guarantors for capital management purposes.

The business opportunities for reinsurers typically follow the underwriting fortunes of a handful of primary guarantors, resulting in franchise value that is inherently weaker than that of the primaries. Furthermore, the reinsurance market has traditionally been susceptible to increased competition, particularly as primary guarantors that are unable to participate in the direct market move into the reinsurance space. AG Re's affiliation with AGC and the group's proposed acquisition of FSA should help to support its continued role within the financial guaranty reinsurance industry.

Factor 2: Portfolio Characteristics: Aa

AG Re's portfolio characteristics are better than the average for financial guaranty reinsurers, and reflect the portfolio characteristics of its largest clients, AGC and FSA, as well as the quality of business obtained through its reinsurance transaction with Ambac. AGC uses the reinsurance capacity of AG Re to manage large single risks, resulting in significant exposure for AG Re to long-dated international project finance and other higher risk transactions. AG Re has also reinsured modest amounts of RMBS and ABS CDO transactions.

Factor 3: Capital Adequacy: Aa

AG Re is well capitalized at the Aa level, even after absorbing large portfolio transactions. We expect the company to continue to deploy capital, taking advantage of the dearth of reinsurance capacity in the market. AG Re will continue to be a means of efficiently managing the capital of the primary operating company, a role we expect to continue with the proposed FSA acquisition. However, we would not expect Assured to manage capital in a manner that would be materially detrimental to the credit strength of any of its operating companies.

Factor 4 - Profitability: A

Assured's traditionally higher-than-industry-average expense ratio has declined in recent quarters as the company's insured portfolio has grown in size. Recent portfolio transactions should enhance the company's profitability profile. However, Moody's expected loss estimates for AG Re's RMBS exposure suggests that profitability could experience some pressure going forward.

Factor 5 - Financial Flexibility: Aa

The Aa score for financial flexibility reflects the Assured Group's conservative leverage profile and recent success in accessing capital to fund growth. Moody's believes, however, that the extreme sensitivity of a financial guarantor's franchise value to changes in its risk profile negatively affects financial flexibility, where even the best positioned firms could experience a dramatic constriction of financing options if material losses were to develop.

Rating Factors

Assured Guaranty Re Ltd.

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	**Broad Rating**
Factor 1: Strategy & Franchise Value (25%)						**Aaa**	**A**
% of Industry Net Par Outstanding			**4.1%**				
% of Industry Gross Par Written	**42.0%**						
Moody's Adjusted Book Value/Book Value [2]	**1.67x**						
Client Concentration		**x**					
Management, Governance & Risk Management Oversight	**x**						
Factor 2: Portfolio Characteristics (20%)						**Aa**	**Aa**
Credit Risk Ratio		**0.66%**					
Tail Risk Ratio		**1.69%**					
% Below Investment Grade	**2.47%**						
S (WCL > 10% of HC) / HC	**48.1%**						
Factor 3: Capital Adequacy (30%)						**Aa**	**Aa**
Hard Capital Ratio		**x**					
Total Capital Ratio		**x**					
Par Reinsured	**0.3%**						
Factor 4: Profitability (15%)						**A**	**A**
Return on Equity - 3 year average			**9.2%**				
Loss Ratio (SAP) - 3-year average		**23.3%**					
Expense Ratio (SAP) - 3-year average			**42.7%**				
Factor 5: Financial Flexibility (10%)						**Aa**	**Aa**
Earnings Coverage			**4.2x**				
Cash Flow Coverage	**8.4x**						
Double Leverage	**115.0%**						
Ease of Access to Capital		**x**					
Aggregate profile						**Aa**	**Aa3**

[1] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis. [2] ABV to BV calulation excludes the after-tax impact of unrealized mark-to-market losses on derivatives