Moody's Investors Service

Credit Opinion: Assured Guaranty Re Ltd.

Global Credit Research - 05 Mar 2010

Bermuda

Ratings

Category	**Moody's Rating**
Rating Outlook	NEG
Insurance Financial Strength	A1
Assured Guaranty Ltd (Bermuda)	
Rating Outlook	NEG
LT Issuer Rating	A3

Contacts

Analyst	**Phone**
Arlene Isaacs-Lowe/New York	1.212.553.1653
Matthew B. Luckey/New York	
Stanislas Rouyer/New York	

Key Indicators

Assured Guaranty Re Ltd. **($ mil.)**	**1Q 2009**	**2008**	**2007**	**2006**	**2005**
Gross Par Written ($ million)	**9,410**	**21,738**	**47,101**	**21,946**	**15,522**
Gross Premiums Written ($ million) [1]	**72**	**263**	**310**	**203.3**	**143.8**
Net Par Outstanding ($ million)	**116,736**	**111,715**	**107,369**	**43,180**	**38,582**
Hard Capital ($ million)	**2,286**	**2,239**	**2,022**	**1,277**	**1,073**
Net Income ($ million) (GAAP))	**51**	**(35)**	**-35.5**	**113.1**	**136.6**
Strategy & Franchise Value					
% of Industry Net Par Outstanding [2]	**2.90%**	**2.97%**	**2.96%**	**1.80%**	**1.60%**
% of Industry Gross Par Written	**17.30%**	**15.74%**	**53.90%**	**38.60%**	**40.10%**
Portfolio Characteristics					
Credit Risk Ratio [3]	**80bps**	**67.1bps**	**50.3bps**	**44.8bps**	**43.3bps**
Tail Risk Ratio [3]	**167.7bps**	**169.4bps**	**161.6bps**	**155.7bps**	**150.1bps**
Capital Adequacy					
Hard Capital Ratio Aa [3]	**NA**	**NA**	**NA**	**1.52x**	**1.59x**
Total Capital Ratio Aa [3]	**NA**	**NA**	**NA**	**1.35x**	**1.42x**
Par Reinsured	**0.26%**	**0.27%**	**0.38%**	**0.76%**	**n/a**
Profitability					
Return on Equity [4]	**3.53%**	**2.93%**	**11.66%**	**9.70%**	**12.50%**
Loss Ratio (GAAP)	**65.90%**	**66.70%**	**18.40%**	**-12.70%**	**-73.60%**
Expense Ratio (GAAP)	**34.80%**	**32.60%**	**42.60%**	**47.20%**	**42.20%**
Financial Flexibility					
Earnings Coverage	**7.7x**	**3.5x**	**8.5x**	**14.5x**	**16.8x**
Cash Flow Coverage	**7.5x**	**9.5x**	**7.8x**	**6.3x**	**n/a**
Double Leverage	**118%**	**117%**	**120%**	**113%**	**n/a**

[1] Gross premium written for 2008 excludes premiums related to CDS contracts [2] Excludes NPO ceded by Assured Guaranty Corp [3] Model ratios are as of 6/30/09. [4] Net of impact of gain/(loss) on derivatives for the period

Opinion

SUMMARY RATING RATIONALE

The A1 insurance financial strength (IFS) rating, negative outlook, of Assured Guaranty Re Ltd. and its wholly owned subsidiaries Assured Guaranty Re Overseas Re Ltd., a financial guaranty reinsurer, and Assured Guaranty Mortgage Insurance Company, a mortgage guaranty reinsurer (collectively AG Re) reflects its strong competitive position being part of the only group of financial guaranty insurers currently writing new business, healthy capital profile, and generally conservative risk management. These strengths are tempered by the operational leverage inherent in the business of a financial guarantor which makes the credit profile rather sensitive to the performance of individual insured sectors and even, in some cases, individual transactions. The A1 rating also considers that as a reinsurer the risk to AG Re's franchise is beyond the broader challenges facing the financial guaranty industry. With few active 3rd party customers, Moody's believes that AG Re's credit profile is susceptible to the business volumes and capital management strategies of Assured's primary financial guaranty operations. Under stress scenarios, the group may have greater incentive to support its direct financial guaranty businesses rather than AG Re, or possibly to the detriment of AG Re.

AG Re is a Bermuda domiciled reinsurer of structured and public finance transactions and is a wholly owned subsidiary and one of three main operating companies of Assured Guaranty Ltd (issuer rating A3, negative outlook). Affiliated companies include Assured Guaranty Municipal Corp (IFS rating at Aa3, negative outlook, previously called Financial Security Assurance Inc., and recently acquired from Dexia), which will focus solely on insuring municipal transactions going forward; and Assured Guaranty Corp. (IFS rating at Aa3, negative outlook), which will continue to write both structured and municipal finance risk. The credit profiles of the operating companies are differentiated but intertwined due to the group's flexibility in managing capital among these entities, as demonstrated by the recent intercompany capital support of AGC.

Credit Strengths

Largest and highest rated monoline financial guaranty reinsurer

Disciplined underwriting and conservative risk management culture

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

Credit Challenges

Sensitivity of business prospects to primary financial guaranty market conditions

Exposure to AGC's large and higher-risk transactions

Franchise value and financial flexibility is highly sensitive to changes in its own risk profile

Rating Outlook

The negative outlook for Assured's ratings considers the meaningful remaining uncertainty about the group's ultimate credit losses, including claims on mortgage exposures and Assured's success in putting back mortgage loans that breached representations and warranties to sponsors and originators. The outlook also reflects the dislocation in the muni market and recent volatility of Assured's new business volumes despite limited alternative forms of credit enhancement and virtual absence of financial guaranty competition. In Moody's view, it is unclear how demand for financial guaranty wraps and Assured's competitive position will evolve once the municipal finance market normalizes.

What Could Change the Rating - Up

Substantial reduction in uncertainty associated with performance of the insured portfolio

Evidence that franchise value and market demand for AGM and AGC's wrapped transactions have not been impaired

Expansion of opportunities to provide reinsurance to third party primary financial guarantors

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 A1 confidence level, without corrective action

Deterioration in competitive environment or product demand

Material increase in capital support to affiliates, possibly as a result of deterioration in the capital positions of the Group's primary financial guaranty operations

Notching Considerations

Assured Guaranty Ltd., the Group's ultimate holding company, is rated A3 and fully and unconditionally guarantees the senior debt of Assured Guaranty US Holdings Inc. The A3 issuer rating of Assured Guaranty Ltd. and A3 senior debt rating of Assured Guaranty US Holdings Inc. is three notches below the Aa3 financial strength rating of Assured Guaranty Corp. and 2 notches from the A1 financial strength rating of the group's Bermuda reinsurance operations, Assured Guaranty Re Ltd., consistent with standard notching practice for US and Bermuda insurance companies.

Recent Results and Developments

On February 25, 2009, Assured Guaranty Ltd. reported consolidated net income of $97.2 million for 2009 compared to consolidated net income of $68.9 million in the prior year. Assured's gross written premiums fell from $618.3 million in 2008 to $556.4 million in 2009. Shareholder's equity has increased substantially to $3.5 billion at year end 2009 from $1.9 billion in 2008 reflecting significant issuance of common stock and the acquisition of FSA

Insurance Financial Strength Rating

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 and as part of the only group currently writing substantial new business. However, 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. Despite reduced primary financial guaranty volume for the industry overall, AG Re may be able to increase its new business writings on an opportunistic basis by reinsuring portfolios of mostly municipal credits from distressed primary financial guarantors seeking to cede risk for capital management and/or regulatory purposes, and AG Re's affiliation with AGC and AGM should help to support its continued role within the financial guaranty reinsurance industry.

Factor 2: Portfolio Characteristics: A

AG Re's portfolio characteristics reflect the portfolio characteristics of its largest clients, AGC and AGM, 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 such as the $2.2 billion of TruPS. AG Re's mortgage related exposures are modest but have experienced considerable deterioration in performance resulting in Moody's increasing loss estimates for these exposures.

Factor 3: Capital Adequacy: A

AG Re's risk adjusted capital position has deteriorated as a result of increased expected and stress losses primarily attributable to the performance of the company's TruPS and RMBS portfolios. Moody's expected losses on AG Re's RMBS portfolio are approximately $250 million, before an estimated $135 million benefit from anticipated lender repurchases of loans that have breached contractual representations and warranties (put-backs). In Moody's view, gross RMBS losses could reach about $500 million in a severe stress scenario. Furthermore, as a capital management tool for the group, AG Re's capital position is susceptible to further deterioration in the insured portfolio of the two primary financial guaranty operations.

Factor 4 - Profitability: A

The embedded premiums in AG Re's portfolio, which have been further enhanced with significant volumes of new municipal business written during the first half of 2008, should provide the operating company with a strong stream of revenue over the next few years. However, the increased future earnings stream from public finance exposures that has been ceded to the company is not considered sufficient to offset the deterioration in the performance of its RMBS exposures resulting from the weakened economy and the potential for claim payments that are higher than the firm's current loss reserves. The group's future GAAP earnings will benefit from the substantially discounted acquisition price to FSA Holdings' book value. The resulting $1.7 billion increase in liabilities as a result of balance sheet items being fair valued will be amortized, boosting recognized revenues which will serve to offset the effect of increases in GAAP loss reserves.

Factor 5 - Financial Flexibility: Aa

With substantially better performance than its peers, the Assured Group has been successful at accessing the capital markets during the credit crisis. Furthermore, ownership of two direct financial guaranty providers and a Bermuda domiciled reinsurer provides the group with additional flexibility to manage capital through intercompany capital transactions. 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.

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Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**		**Score**	[2]**Adjusted Score**
Factor 1: Strategy & Franchise Value (25%)						**Aa**	**A**
% of Industry Net Par Outstanding					**2.9%**		
% of Industry Gross Par Written	**17.3%**						
Moody's Adjusted Book Value/Book Value	**0.02x**						
Client Concentration	**x**						
Management, Governance & Risk Management Oversight	**x**						
Factor 2: Portfolio Characteristics (20%)						**Aa**	**A**
Credit Risk Ratio		**80.0**					
Tail Risk Ratio		**167.7**					
% Below Investment Grade		**4.8%**					
S (WCL > 10% of HC) / HC	**28.1%**						
Factor 3: Capital Adequacy (30%)						**A**	**A**
Hard Capital Ratio			**X**				
Total Capital Ratio			**X**				
Par Reinsured	**0.3%**						
Factor 4: Profitability (15%)						**Baa**	**A**
Return on Equity - 3 year average					**6.0%**		
Loss Ratio (SAP) - 3-year average				**50.3%**			
Expense Ratio (SAP) - 3-year average		**36.7%**					
Factor 5: Financial Flexibility (10%)						**Aa**	**Aa**
Earnings Coverage		**7.7x**					
Cash Flow Coverage	**7.5x**						
Double Leverage	**117.8%**						
Ease of Access to Capital		**x**					
Aggregate profile						**Aa3/A1**	**A1**

[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] Information based on GAAP financial statements as of 6/30/2009

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