

## Assured Guaranty Re Ltd.

### *Major Rating Factors*

#### *Strengths:*

- Strategic relationship with sister companies Assured Guaranty Corp. and Assured Guaranty Municipal Corp.
- Well capitalized, with a margin of safety exceeding the 'AA' minimum under Standard & Poor's criteria.
- Consolidated group's underwriting focus on the low-risk U.S. public finance market.

#### *Weaknesses:*

- Standard & Poor's has sharply lowered its expectations for commercial real estate fundamentals and CMBS collateral performance.
- Susceptible to continued adverse loss development of U.S. nonprime residential mortgage exposure.

#### *Rationale*

The 'AA' financial strength rating on Assured Guaranty Re Ltd. (AG Re) reflects Standard & Poor's Ratings Services' view of AG Re's strategic relationship with 'AAA' rated sister companies Assured Guaranty Corp. (AGC) and Assured Guaranty Municipal Corp. (AGM), as well as AG Re's solid capital position. AGC's and AGM's strong market positions in the bond insurance industry should provide AG Re with a source of ongoing, diverse investment-grade reinsurance business. In our view, AG Re also benefits from AGC and AGM's technical and administrative assistance and a corporatewide approach to risk management. We believe AG Re's proven track record of underwriting discipline is reflected in its lack of meaningful exposure to the problem credits that have plagued other financial guarantors and reinsurers. The company also has been effective in terms of managing its insured par exposure relative to

#### *Operating Company Covered*

#### *By This Report*

Financial Strength Rating

#### *Local Currency*

AA/Stable/—

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its capital base. AG Re is well capitalized—as measured by Standard & Poor’s capital adequacy test—with a strong margin of safety of 1.3x to 1.4x. The margin of safety represents the relationship between the company’s ending capital position in Standard & Poor’s capital adequacy model and losses acquired under a theoretical worst-case scenario. We don’t expect the company’s margin of safety to change because AGC’s and AGM’s management have stated that they intend to underwrite in the low-risk public finance market. This, combined with strong pricing, should lead to a relatively stable margin of safety over time.

### **Outlook**

The stable outlook reflects the company’s strong capital profile, conservative underwriting, and manageable exposure to speculative-grade issues. The outlook also reflects our view that the company will continue to benefit from its strategic relationship with AGC and AGM.

### **Corporate Strategy And Management**

AG Re is a Bermuda-based financial guarantee reinsurer wholly owned by Assured Guaranty Ltd. (AGL). AGL’s corporate strategy is to function as a full-service guarantor with a captive reinsurance affiliate that also has assumed third-party portfolio cessions. Management’s near-term objectives are to capitalize on its financial strength and secure its dominant position as a full-service financial guarantor operating in all approved domestic and international sectors.

AG Re’s business plan emphasizes the expansion of direct financial guarantor sister companies AGC and AGM’s franchise and selective portfolio reinsurance opportunities. With AGL’s acquisition of AGM, management strongly believes that the consolidated group should write a diversified book of business, including both public finance and structured finance. AGL has the flexibility within its corporate structure to underwrite different lines of business out of separate subsidiaries to respond to market needs.

Table 1

<b>Assured Guaranty Re Ltd./Business Statistics</b>					
	<b>—Year ended Dec. 31—</b>				
<b>(Mil. \$)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net par exposure	116,117	111,715	106,253	63,927	49,806
<b>Adjusted gross premiums written*</b>					
U.S. public finance	190.9	190.9	312.0	88.4	76.8
U.S. asset-backed and other	5.4	49.0	79.3	54.7	55.7
U.S. total	196.3	239.8	391.3	143.1	132.5
International public finance	6.3	45.9	67.7	95.0	12.6
International asset-backed and other	0	27.8	22.4	28.0	42.5
International total	6.3	73.7	90.1	123.0	55.1
Total adjusted gross premiums written	202.6	313.5	481.4	266.1	187.6
Net premiums written	279.6	293.4	305.0	195.6	122.8
<b>Gross par written</b>					
U.S. public finance	16,246	14,908	31,324	5,485	5,734
U.S. asset-backed and other	577	3,660	9,997	8,179	6,809

Table 1

**Assured Guaranty Re Ltd./Business Statistics (cont. 'd)**

<i>(Mil. \$)</i>	—Year ended Dec. 31—				
	2009	2008	2007	2006	2005
U.S. total	16,823	18,568	41,321	13,664	12,543
International public finance	1,159	1,736	5,149	5,297	561
International asset-backed and other	0	1,943	3,327	2,985	2,155
International total	1,159	3,679	8,476	8,282	2,717
Total gross par written	17,982	22,247	49,797	21,946	15,260
Net par written	17,982	22,247	49,797	21,946	15,260

\*Adjusted gross premiums written include up-front and present value of installment premiums.

Management's underwriting strategy is for AGC and AGM to underwrite U.S. and international public finance business. As this business expands, AG Re should benefit from the combined entities' leading market position, and its insured portfolio likely will become more weighted toward low-risk U.S. public finance business. AGC and AG Re will write structured finance business as well.

With regard to third-party reinsurance, AG Re has shifted from active treaty and facultative flow to larger portfolio cessions. There were a number of portfolio cessions during the past two years from other bond insurers, so future opportunities are limited. Therefore, the expansion in AG Re's business will be closely linked to the expansion of AGC's and AGM's businesses.

President Kevin Pearson leads the senior management team, and he reports to Dominic Frederico, the CEO of AGL. Gary Burnet, managing director and chief credit officer supports Mr. Pearson. The company has a relatively small staff of nine professionals, but it receives administrative and technological support from AGC. However, AG Re in Bermuda makes all underwriting decisions. There is one risk-management team, led by Howard Albert, and one surveillance team, led by Russ Brewer. Both teams oversee consolidated risk exposure for the consolidated group.

Table 2

**Assured Guaranty Re Ltd./Par Exposure By Source**

<i>As of Dec. 31, 2009</i>		
<i>(Mil. \$)</i>	<i>Gross in force</i>	<i>Gross written year</i>
<i>Direct</i>		
Assured Guaranty Corp.	46,411	15,974
Assured Guaranty Municipal	34,208	18,875
Ambac Assurance Corp.	27,230	
MBIA Insurance Corp.	4,997	
Financial Guaranty Insurance Co.	2,789	
Other	2,057	
Total	117,692	34,849

**Business Review**

Although third-party cessions are nonexistent and future portfolio cessions are limited, the near-term business outlook for AG Re is nonetheless solid, in our view. Its two principal ceding companies continue to dominate the U.S. public finance insured new issue market. In terms of investor capacity for

each company, by writing business out of AGC and AGM, investors can choose which company to accept a financial guaranty policy from so as to meet any investor-specific internal exposure guidelines.

Although the company did not have any flow business in 2009 from primary companies other than AGC and AGM, the company benefited from a portfolio cession in 2009. In January 2009, AGC reinsured approximately \$13 billion of U.S. public finance and infrastructure policies from CIFG Assurance North America Inc. The exposure consisted primarily of investment-grade issues and did not contain any speculative-grade issues, credit default swaps (CDS), or credits for which loss reserves had been established. AGC ceded approximately 50% of this exposure to AG Re.

Table 3

<b>Assured Guaranty Re Ltd./Insurance Portfolio Statistics</b>					
<i>(Mil. \$)</i>	<i>2009 % of par</i>	<i>2009 par</i>	<i>2008 par</i>	<i>2007 par</i>	<i>2006 par</i>
<b>Public finance</b>					
GO	22.7	26,738	17,909	15,370	8,368
Utility	9.2	10,793	9,403	8,176	5,808
Tax-backed	14.5	17,072	16,447	14,278	8,566
Health care	4.7	5,485	6,813	7,073	3,913
Transportation	6.8	8,002	7,410	6,912	3,371
Colleges and universities	3.2	3,723	3,268	2,843	603
Investor-owned utilities	0.8	975	1,317	1,460	681
Housing	1.3	1,505	1,744	1,774	754
Other	3.2	3,796	2,856	2,970	281
Total	66.4	78,089	67,166	60,856	32,345
<b>Domestic asset-backed and corporate finance</b>					
MBS	2.7	3,201	3,730	3,618	4,116
Home equity loan	0.6	674	938	1,211	-
Auto loan	0.5	571	1,319	1,192	311
Other consumer asset backed	2.6	3,039	1,512	1,425	715
Commercial asset backed	-	-	4,215	4,468	2,527
Bank/financial institutions	-	-	-	-	128
Other	9.8	11,570	11,396	10,170	9,654
Total	16.2	19,056	23,109	22,084	17,451
<b>International</b>					
Public finance	11.2	13,223	12,693	14,490	8,360
Asset backed	6.2	7,324	5,799	4,935	2,770
Other	-	-	2,947	3,889	3,000
Total	17.5	20,547	21,440	23,314	14,130
Total net par outstanding	100.0	117,692	111,716	106,254	63,926

The CIFG portfolio cession followed a number of portfolio cessions in 2008 and three AGM portfolio transfers beginning in the third quarter of 2008 and extending into the first quarter of 2009. These portfolio transfers represented business that AGM took back from reinsurers after the reinsurers were downgraded. There have been a number of additional portfolio cessions relating to take backs in 2010.

As a result of these portfolio cessions, combined with the runoff of structured finance exposure and little new exposure to replace it, AG Re's insured portfolio became more weighted toward U.S. public finance. U.S. public finance now represents 66% of total insured net par.

The credit quality of the insured book of business remains strong, in our opinion. About 11% of the book of business has underlying ratings of 'AAA', with 29% in the 'AA' category and 39% in the 'A' category. Speculative-grade exposure increased modestly, to 4.0% as of year-end 2009 from 3.0% as of year-end 2008. This increase is minor compared with the rest of the industry because of AG Re's relatively small and high-credit-quality exposures to the nonprime mortgage and CDO of ABS sectors. The company has a relatively modest \$338 million of exposure to collateralized debt obligations (CDO) of asset-backed securities (ABS), all of which was underwritten prior to 2004. Its insurance of subprime mortgages and home equity loans is \$4 billion. Much of that exposure was ceded by AGC.

AG Re also has exposure to domestic and international commercial mortgage-backed securities (CMBS) totaling about \$2.0 billion. Standard & Poor's has updated its CMBS criteria, and stress in the sector has contributed to downgrades. Standard & Poor's tested AG Re's capital adequacy against a scenario that applies stressful default assumptions to various CMBS-related transactions.

### **Finances**

The portfolio cessions in 2009, combined with business ceded from AGC and AGM, somewhat offset the decline in adjusted gross premiums written from flow business that other primary insurers wrote. Adjusted gross premiums written of \$202.6 million were down from \$313.5 million in 2008. However, the portfolio cessions added to the company's future earnings. The unearned premium reserve increased to \$848 million as of Dec. 31, 2009, from \$792 million on Dec. 31, 2008. In addition, the company benefits from structured finance installment premiums, as illustrated by the \$279.6 million of net premiums written in 2009, compared with adjusted gross premiums written of 202.6 million.

Table 4

#### **Assured Guaranty Re Ltd./Financial Statistics\***

	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Total assets	2,147	2,032	2,039	1,446	1,331
Cash plus invested assets	2,092	1,988	1,774	1,208	1,136
Unearned premiums	848	792	633	448	362
Shareholders' equity	1,190	1,100	1,123	869	806
Net premiums earned	230	174	120	107	93
Losses and loss adjustment expense	132	125	22	(14)	(68)
Underwriting expense	74	88	51	51	39
Investment income including gains	54	33	64	56	45
Net income	109	(6)	(36)	113	137
Loss ratio (%)	58	67	18	(13)	(74)

\*Pro forma U.S. statutory basis of accounting.

The company reported underwriting income of \$24 million in 2009, compared with an underwriting loss of \$39 million in 2008. Underwriting income excludes investment income and gains or losses on investments and derivatives. The principal reason for the rise in underwriting income was a 32% increase in earned premiums and relatively flat loss and loss-adjustment expenses.

In 2009, net investment income rose by 62% to \$54 million, primarily because of substantial OTTI charges in 2008 as well as an increase in investments stemming from the increase in unearned premium reserve. The investment portfolio was \$2.1 billion with an average credit quality of 'AA+'. Mortgage-backed securities, accounting for about 46%, were the largest component of the portfolio, followed by U.S. government securities and agency obligations, constituting approximately 19%.

### **Capitalization**

As of Dec. 31, 2009, AG Re's margin of safety was 1.3x to 1.4x. The margin of safety expresses the relationship between theoretical losses generated by Standard & Poor's capital adequacy model and capital remaining at the end of a theoretical economic depression. AG Re's margin of safety exceeds Standard & Poor's 1.0x minimum requirement for a 'AA' rated company.

The key assumptions embedded in Standard & Poor's capital adequacy model are:

- Three years of growth followed by four years of stress;
- 15% growth per year in new public finance business in each of the growth years, or the company's assumed growth rate, if higher;
- 50% growth per year in new structured finance business in each of the growth years, or the company's assumed growth rate, if higher;
- Capital charges consistent with the assumed mix of business; and
- Premium rates based on current market opportunities.

Table 5

<b>Assured Guaranty Re Ltd./Capital Statistics</b>					
	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
<b>Portfolio risk</b>					
Municipal insurance weighted-average capital charge (% of average annual debt service)	11.6	9.7	8.9	9.6	10.1
Asset-backed capital charge (% of par)	2.9	2.0	1.4	1.6	1.9
<b>Claims-paying resources*</b>					
Statutory capital	1,190	1,193	1,097	741	691
Stop-loss treaty	0	0	0	0	0
Unearned premiums	848	720	629	444	356
Present value of annual premiums	349	345	366	230	174
Total	2,387	2,258	2,092	1,415	1,221
<b>Capital adequacy</b>					
Capital remaining at end of depression test	550-600	550-600	800-850	400-450	250-300
Margin of safety (x)	1.3-1.4	1.4-1.5	1.6-1.7	1.4-1.5	1.3-1.4
Reliance on soft capital (%)	0	0	1.0	0.4	1.0

\*Claims-paying resources are Assured Guaranty Re estimates of U.S. statutory accounting. The company files Bermuda statutory financial statements.

Standard & Poor's tested AG Re's capital adequacy against a scenario that applies stressful default assumptions to various RMBS-related transactions that the companies have insured. The insured direct residential mortgage-backed securities (RMBS) transactions and tranches of uninsured RMBS transactions are components of the collateral backing insured CDOs. We based the default rates for

these transactions on stressful cumulative net loss assumptions supplied by our structured finance department that vary by asset type and vintage. We have included the Alternative-A, subprime, closed-end second, home equity line of credit, and net interest margin securities asset types with 2005, 2006, and 2007 vintages in this analysis. For AG Re, these loss assumptions generated \$182 million of direct RMBS losses and an immaterial amount of CDO of ABS losses.

For AG Re's CMBS exposure, we based our method for stressing CMBS on the analytical approach outlined in "U.S. CMBS Rating Methodology And Assumptions For Conduit/Fusion Pools," published June 26, 2009, and "U.S. CMBS 'AAA' Scenario Loss And Recovery Application," published July 21, 2009. We calculated expected losses for each transaction to a 'AAA' level of stress.

We based any losses assessed to AG Re on business ceded to AG Re by AGC, and we calculated the losses based on AGC's position in the capital structure (the difference between AGC's position plus the credit enhancement in the transaction and our loss expectation). We also aggregated losses for groups of transactions and subtracted any applicable deductible AGC may have structured. Finally, we converted the calculated results to a present value by discounting the losses at 5% per year over the average remaining life of the transaction, assuming a payout that meets the terms of the CDS contract. The loss assumption for AG Re's CMBS exposure was \$187 million.

We also increased our capital charges on AG Re's exposure to collateralized loan obligations. The increase in capital charges reflects the application of our updated criteria for corporate CDOs, as well as credit deterioration in some of the transactions. The result was that each company had a larger amount of theoretical losses in Standard & Poor's capital adequacy test.

Table 6

<b>Assured Guaranty Re Ltd./Liquidity Analysis</b>		
	<i>Haircut (%)</i>	<i>Amount (mil. \$)</i>
<b>Assets/resources as of Dec. 31, 2009</b>		
Cash and short-term investments	-	236
Treasury and government agency fixed-income securities	10	368
Corporate and asset-back securities/mortgage-backed securities bonds	50	688
Bank lines of credit	-	100
<b>Total</b>		<b>1,392</b>
<b>Potential uses (occurring in current full year)</b>		
Largest net total payments in current year associated with a municipal obligor default		103
Largest net bullet maturity default		34
Largest debt service reserve draw		13
90 days of payments associated with the largest servicer default		200
Holding company debt and dividend servicing needs		48
<b>Total</b>		<b>398</b>
Liquidity ratio (x)		3.49

**Ratings Detail (As Of 24-Jun-2010)\***

**Operating Company Covered By This Report**

Assured Guaranty Re Ltd.

**Ratings Detail (As Of 24-Jun-2010)\* (cont. 'd)**

Financial Strength Rating	
Local Currency	AA/Stable/—
Counterparty Credit Rating	
Local Currency	AA/Stable/—
Financial Enhancement Rating	
Local Currency	AA/Stable/—

**Related Entities**

Assured Guaranty Corp	
Financial Strength Rating	
Local Currency	AAA/Negative/—
Issuer Credit Rating	
Local Currency	AAA/Negative/—
Financial Enhancement Rating	
Local Currency	AAA/Negative/—
Assured Guaranty, LTD.	
Issuer Credit Rating	A+/Stable/—
Junior Subordinated (1 Issue)	A-/Stable
Senior Unsecured (2 Issues)	A+/Stable
Assured Guaranty Municipal Corp.	
Financial Strength Rating	
Local Currency	AAA/Negative/—
Issuer Credit Rating	
Local Currency	AAA/Negative/—
Financial Enhancement Rating	
Local Currency	AAA/Negative/—
Senior Unsecured (1 Issue)	A+
Senior Unsecured (2 Issues)	AAA

<b>Domicile</b>	Bermuda
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\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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