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Assured Guaranty Ltd.

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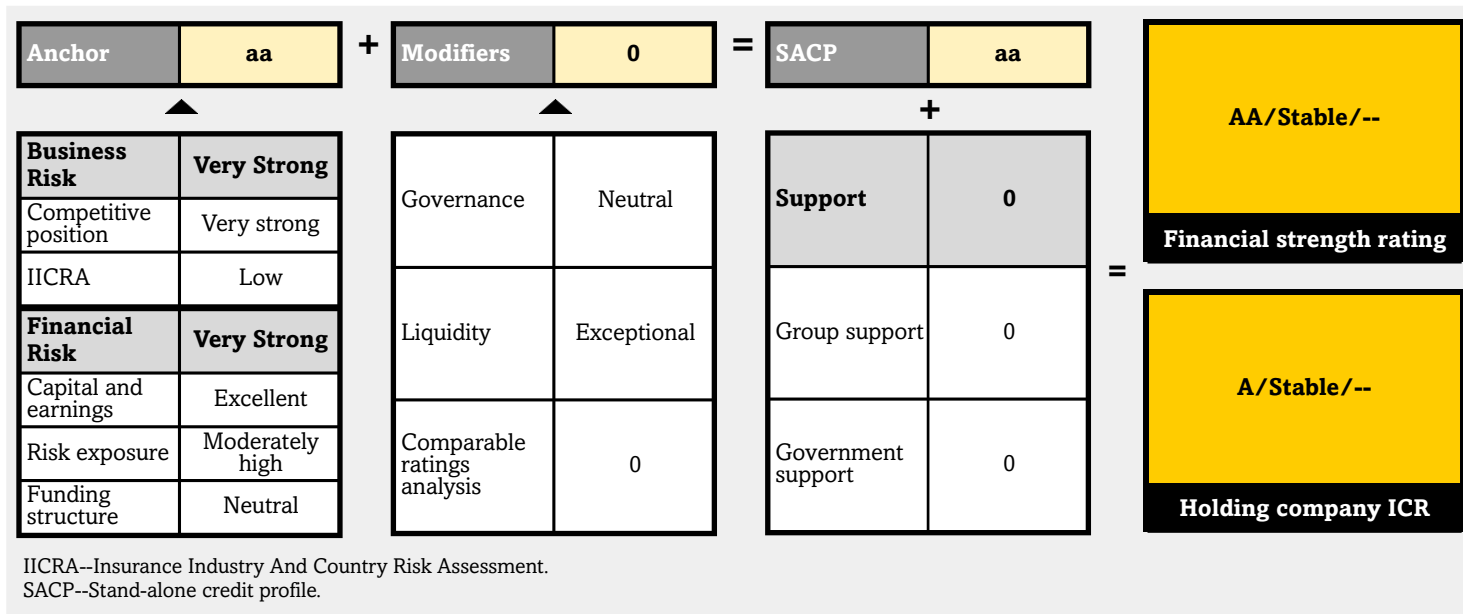
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Assured Guaranty Ltd.



Credit Highlights

Overview	
Strengths	Risks
Well-diversified global underwriting strategy and stable share of the insured U.S. public finance market	Concentration risk in the insured portfolio as measured by the largest obligor test
Excellent capital adequacy historically well above 1.0x, and management focus on maintaining this level of capital adequacy	Low interest rate environment could pressure risk adjusted pricing

Assured Guaranty Ltd. (AGL) through its subsidiaries (collectively Assured) has a well-defined, diverse underwriting strategy. Assured writes business predominantly in the U.S. public finance market where it has a broad presence. The underwriting strategy, however, includes global structured finance and international local and regional government bonds, as well as infrastructure projects. The experienced management team understands the various risks the company faces in executing this underwriting strategy.

Assured has excellent capital and earnings with a meaningful capital adequacy buffer at the current rating. The application of our largest obligor test, however, highlights potential concentration risks in the insured portfolio, which weighs on our assessment of the financial risk profile. The strength of Assured's capital adequacy should allow it to withstand losses on its exposure to issuers in Puerto Rico. Additionally, management's vigilant approach to its global underwriting strategy does not expose the company to outsized risk.

The combination of a very strong business risk profile and very strong financial risk profile leads to a split anchor of 'aa/aa-'. The selection of the higher anchor because of redundancy of capital at the current rating, and our expectation that while the level of redundancy may change, capital adequacy will not fall below 1.0x.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' expectation that the group will maintain a very strong competitive position and excellent capital adequacy, as well as maintain its share of the insured U.S. public finance market. It also considers Assured's measured approach to insuring non-U.S. public finance transactions, which we view as not presenting outsized risk to capital. The maintenance of a capital adequacy ratio above 1.0x is essential for rating stability.

Downside scenario

We may lower our ratings if Assured exhibits a prolonged period of poor operating performance, its non-U.S. public finance business meaningfully alters the risk profile of its insured portfolio, or its capital adequacy falls below 1.0x and we believe Assured will not be able to improve its capital position.

Upside scenario

Based on our view of the insurable new-issue U.S. public finance market and the company's overall business volume, we don't believe Assured's competitive position or earnings will dramatically change, so we don't expect to raise our ratings in the next two years.

Key Assumptions

- Real GDP growth of about 6.5% in 2021, and 3.1% in 2022
- A 10-year Treasury rate of about 1.7% in 2021, and 2.2% in 2022
- The Consumer Price Index at about 2.7% in 2021, and 2.1% in 2022
- An unemployment rate of 5.5% in 2021, and 4.6% in 2022
- A stable sector outlook

Source: Economic Outlook U.S. Q2 2021: Let The Good Times Roll, March 24, 2021

Key Metrics

	2020	2019	2018	2017	2016
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA
Claims paynig resources (\$ mil)	11,077	11,162	11,815	10,749	11,702
Adjusted gross premium written (\$ mil.)	390	463	663	289	214
Operating return on equity (%)	4.2	6.2	7.5	10.1	14.5
Statutory return on revenue (%)	67.7	68.5	53.0	39.0	60.9
Net combined ratio (%)	69.5	46.4	64.5	164.1	110.2
Financial leverage (%)	21.6	21.7	21.9	21.9	22.8
Fixed charge coverage (x)	3.9	5.4	6.0	8.1	8.2

Business Risk Profile: Very Strong

Assured has a very strong competitive position based on a well-defined, diverse underwriting strategy. Although much of the group's business has been insured debt issues in the U.S. public finance market, underwriting includes global structured finance and international local and regional government bonds, as well as infrastructure projects. This underwriting strategy provides flexibility to capitalize on opportunities in one market when other markets are less favorable. From an insured risk perspective, we view management's approach to writing business in non-U.S. public finance markets as well thought out, measured, and not exposing the company to outsized risk.

After a period of uncertainty in the U.S. public finance market that forced many municipal issuers to delay their transactions until market volatility lessened and market access improved, insured new issue business volume in 2020 reflected investors' return to the municipal market with a heightened focus on credit quality, trading value stability, and market liquidity. These factors drive the demand for bond insurance. In 2021, business volume, in terms of U.S. public finance par written and premiums written, may not be the same as 2020, owing to 2020's market dynamics. Insured business volume, however, is likely to be above levels we saw in 2019 because of investors potentially realizing the benefits of the financial guarantee product during market uncertainty. Additionally, we expect Assured to continue to experience strong demand in the insured secondary market because the economics of bond insurance are appealing to institutional investors as a risk mitigation tool.

While investor demand for insurance in the U.S. public finance market may be higher than in recent years, the current low interest rate environment could pressure risk adjusted pricing. Assured will need to adhere to the pricing discipline it has displayed in the past to ensure the long term profitability of the company. The company's underwriting activity in other global markets may, however, offset any pricing pressure in the U.S. public finance market.

Financial Risk Profile: Very Strong

We assess the group's capital and earnings as excellent, with a capital adequacy ratio well above 1.0x. Our capital adequacy analysis includes a near-term loss assumption and a view of claims beyond 2024 relating to Assured's exposure to the Puerto Rico Electric Power Authority (PREPA), Puerto Rico general obligation bonds (GO), Public Buildings Authority (PBA), Puerto Rico Highways and Transportation Authority (HTA) and the Puerto Rico Convention Center District Authority (CCDA).

Our assumption relating to PREPA is based on potential claim payments on the insured bonds and the stressed cash flow of the new nonrated securitization bonds issued by a special-purpose corporation, as outlined in the proposed restructuring support agreement (RSA). Our assumption relating to GO, PBA, HTA and CCDA is based on potential claim payments on the insured bonds and the stressed cash flow of the new nonrated bonds issued by each entity and upfront cash payment, as outlined in the proposed plan support agreements (PSAs). With regard to the remaining Puerto Rico exposure not covered by the RSA or PSAs, these issuers have been making regular debt service payments and do not pose a risk to Assured's financial risk profile. Total debt service for this exposure is under \$500 million with debt service schedule covering the next 10 to 20 years.

While the pandemic has led to fiscal challenges for all U.S. public finance sectors, we view the potential impact on Assured as somewhat low. There have been a limited number of ratings downgrades of insured issues, but they have been limited to a notch or two with an immaterial effect on Assured's capital adequacy. Further ratings downward migration for some insured issues still remains a possibility. We do not expect, however, these possible rating changes to put excessive stress on Assured's capital adequacy given the level of redundancy at the current rating.

Assured's moderately high risk exposure reflects the application of our largest obligor test which highlights potential concentration risks of the insured portfolio and weigh on our assessment of Assured's financial risk profile. This test does not necessarily assume these exposures will default, but rather rating changes of the underlying insured issues could lead to volatility in capital and earnings. The investment portfolio presents low risk and is almost entirely fixed-income investments with an average credit quality of 'AA'.

We consider Assured's funding structure neutral to the rating. Its broad access to capital markets as a publicly listed company and record of debt issuance, along with sound capital management, underpin our assessment. In 2020, Assured most likely reached an inflection point where the amount of new insured par written is greater than the runoff of the legacy exposure. Since 2008, the amount of the insured portfolio runoff greatly exceeded new par written leading to a reduction in premiums earned and total earnings. However, with the growth in the U.S. public finance business and the long-term, stable earnings power associated with the growth in the UPR, we can expect a steady improvement in fixed charge coverage.

Other Key Credit Considerations

Governance

The experienced management team demonstrates a strong understanding of the various risks the company has as it executes its corporate strategy. We consider its risk management culture positive, reflecting Assured's robust risk reporting and significant oversight from senior management. Management employs a structured process for risk identification and monitoring, detailed risk limits and policies, and a system of enforcement through well-defined authorities to control underwriting risk, surveillance, and loss mitigation.

Liquidity

Assured's liquidity is exceptional as a result of a conservative investment strategy that we believe adequately supports its liquidity needs. The company is sufficiently covered for loss and loss adjustment expenses payable in the next 12 months, and we do not foresee any longer-term material liquidity risks at this time. Given Assured's investment strategy, we believe the company maintains sufficient liquidity to cover unexpected stress in the insured portfolio.

Enterprise risk management

The combination of high leverage (net par exposure relative to capital) and potential increased correlation between individual issuers in stress scenarios is a significant risk to a bond insurer's creditworthiness. The increased correlation between issuers in times of stress can result in substantial losses or rating migration of insured exposure, with the high leverage magnifying the potential hit to capital. This leverage and confidence-sensitive nature of the bond insurance industry lead us to view enterprise risk management functions as an important factor to the rating.

Factors specific to the holding company

Assured Guaranty US Holdings Inc. (Assured Holdings) and its subsidiary, Assured Guaranty Municipal Holdings Inc. (AGMH), are the obligors for all debt and hybrid securities for the consolidated group. The debt-service needs of Assured Holdings and AGMH and our 'A' issuer credit rating on AGL depend on the ability of operating companies to pay dividends.

Accounting considerations

We consider both generally accepted accounting principles (GAAP) and statutory statements when examining the capital, earnings, and other financial metrics versus peers.

Related Criteria

- Methodology And Assumptions For Analyzing Bond Insurance Capital Adequacy, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019

Business And Financial Risk Matrix								
Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of July 8, 2021)*	
Assured Guaranty Ltd.	
Issuer Credit Rating	A/Stable/--
Related Entities	
Assured Guaranty Corp	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--

Ratings Detail (As Of July 8, 2021)*(cont.)

Financial Enhancement Rating	
<i>Local Currency</i>	AA/Stable/--
Assured Guaranty (Europe) SA	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
Financial Enhancement Rating	
<i>Local Currency</i>	AA/Stable/--
Assured Guaranty Municipal Corp.	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
Financial Enhancement Rating	
<i>Local Currency</i>	AA/Stable/--
Assured Guaranty Municipal Holdings Inc.	
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
Junior Subordinated	BBB+
Senior Unsecured	A
Assured Guaranty Re Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
Financial Enhancement Rating	
<i>Local Currency</i>	AA/Stable/--
Assured Guaranty Re Overseas Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
Financial Enhancement Rating	
<i>Local Currency</i>	AA/Stable/--
Assured Guaranty UK Limited	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
Financial Enhancement Rating	
<i>Local Currency</i>	AA/Stable/--
Assured Guaranty US Holdings Inc	
Issuer Credit Rating	A/Stable/--

Ratings Detail (As Of July 8, 2021)*(cont.)

Sutton Capital Trust I	
Preferred Stock	A+
Sutton Capital Trust II	
Preference Stock	A+
Sutton Capital Trust III	
Preferred Stock	A+
Sutton Capital Trust IV	
Preferred Stock	A+
Woodbourne Capital Trust I	
Preferred Stock	A+
Woodbourne Capital Trust II	
Preferred Stock	A+
Woodbourne Capital Trust III	
Preferred Stock	A+
Woodbourne Capital Trust IV	
Preferred Stock	A+
Domicile	Bermuda

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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