



Presentation to Ray McDaniel
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- **Moody's view**
- **Process issues**
- **Issues raised in Moody's press release**
- **Market reaction**
- **Assured's position**
- **Preserve Aaa rating for Assured Guaranty Corp. (AGC)**
- **Next steps**
- **Appendix**

Overview of Moody's Concerns



- **Moody's view:**

- Expectation of more volatility
- Lower demand for financial guaranties
- Limited access to capital

Has resulted in placing Assured's operating companies, AGC and AG Re, under review for possible downgrade

- **Market view**

- Financial guaranty industry's losses have arisen from one asset class – ABS CDOs (see page 18).
 - Assured does not have exposure to this asset class. Remaining exposure is not leveraged and is granular
- Demand for guarantors that the market perceived to be sufficiently capitalized was strong up until Moody's recent actions
- Capital for public companies was and remains accessible
- Moody's ratings volatility on the financial guarantors has weakened confidence in the financial guaranty industry causing decrease in value for bondholders and shareholders

Assured's Concerns About Moody's Process



- **In March 2008, Moody's affirmed all of Assured's ratings**
- **On May 18, Moody's stated that first quarter results did not impact ratings**
- **On July 21, Moody's issued press release stating:**
 - Capital sufficient for Aaa
 - No meaningful change in Assured's RMBS risk
 - However, placed AGC and AG Re on review for possible downgrade
 - Unclear as to issues – industry/non-industry
 - No opportunity provided to remedy issues
 - General feedback offered has been contradictory to industry teleconference held July 31
- **Current situation**
 - No clarity on requirements to remedy review and protect Aaa rating

Comments on Issues Raised in Moody's Press Release



Moody's Press Release

- **“Leverage and complexity of structured finance portfolio makes review difficult and is inconsistent with lower risk tolerance implied by Aaa rating.”**

Assured's Comments

- **Moody's rates over 95% of Assured's structured finance par in force**
- **Moody's rates Aaa 73% of Assured's par in force**
- **Structured finance portfolio is not leveraged and the transactions are granular**
- **Correlation on the underlying assets is well understood**
- **Assured's largest structured finance exposure is to CLOs. "For 2008, Moody's outlook for CLOs is stable/negative, with limited rating implications. Despite the potential for downward rating pressure, we do not anticipate a dramatic change in CLO rating performance. Historically, CLOs have demonstrated considerable rating stability, even in the highly stressful credit environment of 2001-2002." Moody's CLO outlook March 3, 2008**

Comments on Issues Raised in Moody's Press Release



Moody's Press Release

- **“Review reflects reduction in overall market demand for FG enhancement.”**
- **“Insured public finance volume has declined significantly, with insured penetration off a third or more.”**

Assured's Comments

- **Demand for credit enhancement in municipal markets remains strong with over 40% of issuance receiving credit enhancement. Of first half 2008 issuance, 24% had insurance and 18% had bank letters of credit.**
- **Assured's activity:**
 - First half 2008 public finance production: \$20.4 billion par written
 - Full year 2007 public finance production: \$1.3 billion par written.
- **Moody's stated on July 31 that it expects insured penetration to normalize at 35%, an estimate which supports a stable 4-5 player industry**

Comments on Issues Raised in Moody's Press Release



Moody's Press Release

- **“Recent market disruptions have highlighted extent to which the markets perception of future adverse developments can impact business opportunities as well as financial flexibility.”**

Assured's Comments

- **Assured has very successfully accessed the capital markets twice in the past eight months raising \$550 million and continues to receive strong support from equity investors interested in investing in Assured**
- **Public companies that “face the market” have the ability to raise capital when needed**
- **Privately-held companies do not have this flexibility and rely upon the willingness of a parent or equity sponsors to provide capital**

Moody's Statement

- **“Not much has to go wrong for a company's fortunes to turn on a dime.”
J. Dorer (July 31, 2008)**

Assured's Comments

- **During the last 12 months the market has experienced:**
 - Unprecedented meltdown of the U.S. housing market
 - A downturn in the global economy
 - Significant rise in energy related prices
 - Miscalculation of the credit quality by both companies and rating agencies of ABS CDOs
- **Assured's portfolio has continued to meet Moody's quantitative stress criteria during all these adverse credit events and management has accurately calculated and managed Assured's financial needs during this crisis**

Moody's Statement

- **Berkshire Hathaway Assurance Corp. (BHAC) is not affected by the current ratings actions as Assured and FSA**
- **Moody's noted that BHAC would be rated Aa2, if it were not for the guaranty of BHAC's credits by its affiliate, Columbia**

Assured's Comments

- **BHAC would be affected by any issues affecting insured penetration in public finance and general market acceptance and need of financial guaranty industry**
- **BHAC does not meet the Aaa criteria outlined in "Moody's Rating Methodology for the Financial Guaranty Insurance Industry" published in September, 2006, even with the Columbia guaranty**
- **"Capital is not the only issue. Franchise value and strategy, portfolio characteristics, profitability, and financial flexibility all factor into any rating decision." J. Dorer (July 31, 2008)**

Public Finance Market Reaction to Moody's Release



Public Finance Market

- **“What they say one month, and what their models say one month, seems to change.”
--Daniel Solender, director of municipal bond management at Lord Abbett**
- **“Moody's said any cuts to FSA and Assured would take the ratings to the double-A range, which is solidly investment-grade. But investors are skeptical, and there is a wearying sense of having seen this pattern before.” (Bond Buyer)**
- **Following Moody's announcement, several transactions for which Assured had provided a commitment were pulled (State of New Jersey, Pennsylvania Turnpike, Los Angeles Airport)**
- **The Massachusetts Educational Financing Authority (MEFA) announced that it would not offer student loans to 40,000 families for the upcoming school year due to market conditions – Assured had been working with MEFA to wrap a bond deal to provide the loans**

Reaction of Equity Analysts



Goldman Sachs

“Moody’s admitted it does not expect meaningful losses to single risk exposures. We believe that Assured Guaranty’s position is very different from that of other financial guarantors that recently experienced rating downgrades.”

Bank of America

“We view the Moody’s action yesterday to initiate a review for possible downgrade as inconsistent with AGO’s fundamentals and Moody’s own assessment that AGO’s capital is more than sufficient for a triple-A rating. Moody’s action seems to be based primarily on falling demand for bond insurance which the agency has helped to create to a degree by destroying market confidence in the sector through its course of actions. In our opinion, those actions appear no longer to be based on thoughtful capital or credit analysis.”

Piper Jaffray

“Moody’s announced its intention to review Assured Guaranty’s Aaa rating for possible downgrade ... We can find no basis for the review as credit remains sound and capital more than adequate, even under stress scenarios. Moody’s concern evidently reflects the change in the financial guarantor landscape, the acceptance of a Aaa rating in the marketplace and the longer term viability of the Aaa franchise. Additionally, it appears the agency no longer possesses the confidence in its ability to assess loss severity even though the agency aspires to provide rating on the company. In our view, the rating agency overstepped its bounds.”

- **Significant growth in demand for guaranties through first half of 2008**
- **Assured has raised capital twice during the most volatile part of the economic cycle, amounting to \$550 million**
- **Moody's confirmed Aaa capital requirements are met**
- **Assured's well-diversified portfolio has survived the most volatile market in history**
 - Portfolio likely to manifest even lower risk in the future given Assured's growth in public finance business
- **Deferred earnings of \$2.7 billion (up 66% from June 30, 2007) of unearned premium and estimated net future installment premiums**
- **Conservative underwriting – Assured became uncomfortable with subprime RMBS risk in 2003:**
 - Ceased writing primary guaranties or facultative reinsurance capacity below Aaa at beginning of 2004;
 - AGC determined that the non-linear risk and imbedded leverage on leverage of ABS CDOs was inconsistent with the risk profile of a financial guaranty company

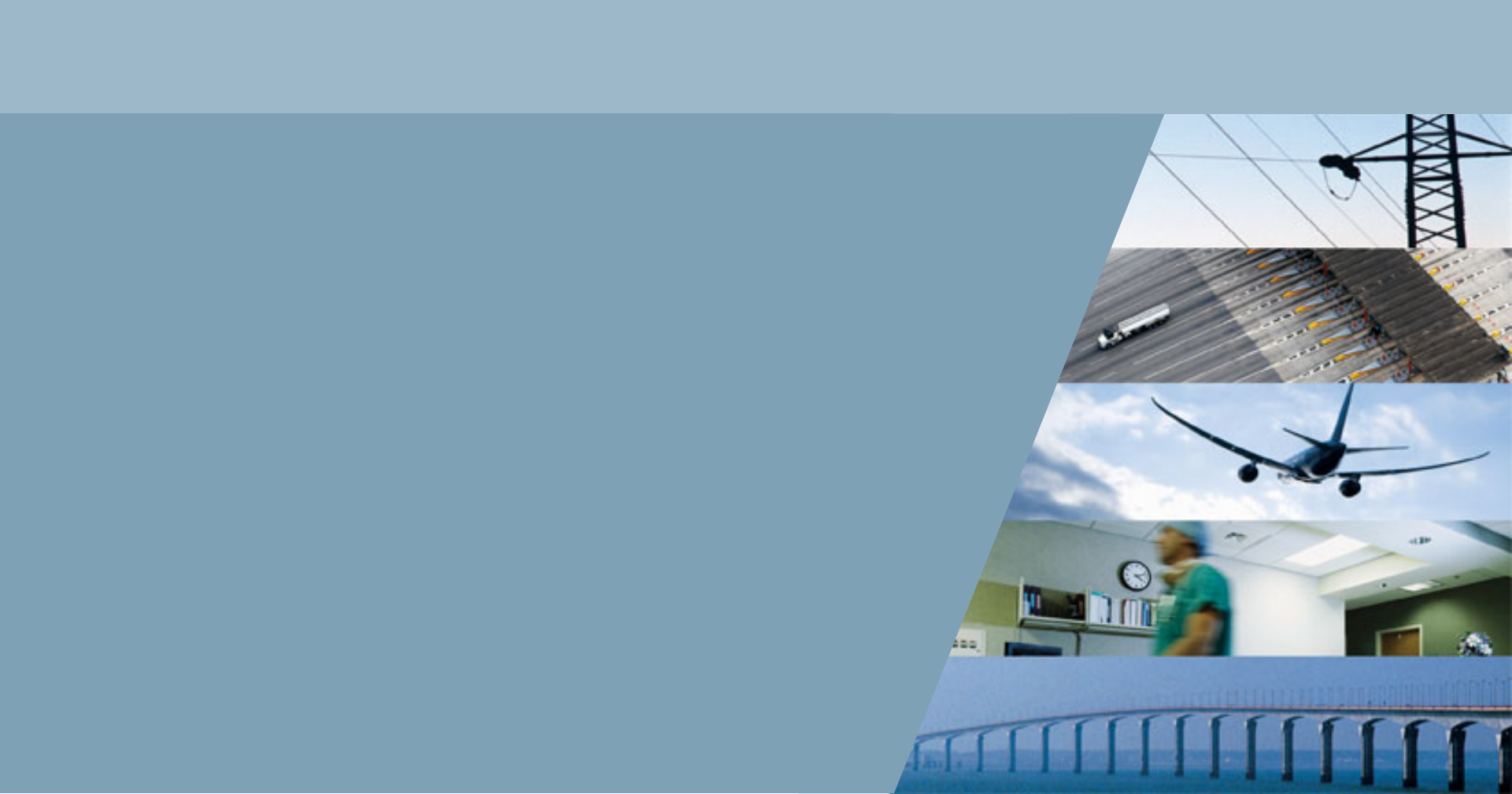
- **Assured's insured portfolio is better diversified than at time of upgrade in 2007 or affirmation in March, 2008**
- **Stronger balance sheet and earnings model**
 - Invested assets of \$3.7 billion
 - Deferred revenue of \$2.7 billion
- **Volatility of insured portfolio has significantly reduced over last six months**
 - Public finance represents 55% of consolidated AGL portfolio

Preserve Aaa Rating for AGC



- **Assured is willing to undertake whatever reasonable means necessary to maintain its current Moody's ratings**
- **We seek to work collaboratively with Moody's to identify a way to achieve this goal**
- **We acknowledge Moody's discomfort with certain sectors of the structured finance portfolio**

- **The financial guaranty industry needs specific rating criteria that are consistently and fairly applied**
 - Transparency is critical
 - Any changes in model and/or assumptions should be discussed and supported by broad industry constituents
 - Other closely related industries (e.g., DPC companies) must be treated consistently
 - All financial guaranty companies must be held to consistent criteria (e.g., Berkshire):
 - Capital adequacy
 - Franchise value and strategy
 - Portfolio characteristics
 - Profitability
 - Financial flexibility
 - Timely response to prevent further market volatility
 - Outcome of consideration must result in a rating with “stable” outlook



Appendix

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Assured's Direct Exposure Pooled Corporates



	Net Par Outstanding	% of Total	Average Moody's Rating	Q2 2008 Hard Credit Enhancement	Estimated Value of Excess Spread	Total Credit Enhancement	Current Defaulted Securities (%)
US Mortgage and REIT TruPS CDOs							
US Mortg and REIT TruPS	2,571	6.0%	Aa1	45.7%	12.5%	58.2%	12.1%
Subtotal - US Mortgage and REIT TruPS	2,571	6.0%	Aa1	45.7%	12.5%	58.2%	12.1%
All Other US Pooled Corporates							
US Broadly Synd CLOs	14,731	34.4%	Aaa	30.7%	10.0%	40.7%	0.7%
US Mid Mkt CLOs	5,412	12.6%	Aa1	34.5%	10.0%	44.5%	2.2%
MV CDOs	4,245	9.9%	Aaa	36.8%	N/A	36.8%	N/A
US Bank and Insurance TruPS	3,442	8.0%	Aaa	45.6%	15.0%	60.6%	4.5%
IG Corp	2,337	5.5%	Aaa	29.6%	N/A	29.6%	0.1%
Commercial Real Estate ⁽¹⁾	755	1.8%	Aaa	48.9%	5.0%	53.9%	0.0%
Other ⁽²⁾	654	1.5%	Aa1	31.0%	N/A	31.0%	1.1%
Subtotal - All Other US Pooled Corporates	31,576	73.8%	Aaa	34.1%	8.1%	42.3%	1.2%
Non-US Pooled Corporates							
Eur Mortg & REIT TruPS	1,309	3.1%	Aaa	36.8%	12.5%	49.3%	0.0%
Eur Bank and Insurance TruPS	465	1.1%	Aa2	48.5%	15.0%	63.5%	0.0%
Eur Broadly Synd CLOs	6,886	16.1%	Aaa	39.7%	10.0%	49.7%	0.4%
Subtotal - Non-US Pooled Corporates	8,661	20.2%	Aaa	39.7%	10.6%	50.4%	0.3%
Grand Total	\$ 42,808	100.0%	Aaa	36.0%	8.9%	44.9%	1.7%

1. Commercial Real Estate consists primarily of whole loans

2. Other Pooled Corporates include CDOs of CDOs and HY CBOs

AGC Portfolio



(\$ bil)	% of		% of Total		% of Total	
	6/30/2007	Total	12/31/2007	% of Total	6/30/2008	% of Total
Public finance						
US public finance	19.9	26%	21.1	22%	34.6	31%
Intl public finance/infrastructure	5.9	8%	7.5	8%	7.5	7%
Total public finance	25.8	34%	28.6	30%	42.1	37%
Structured finance						
Pooled Corporate	26.6	35%	31.8	34%	33.9	30%
US RMBS	9.1	12%	13.4	14%	14.6	13%
Other ABS	14.5	19%	20.3	22%	21.8	19%
Total structured finance	50.1	66%	65.6	70%	71.3	63%
Total	75.9	100%	94.1	100.0%	112.3	100%
Tail loss	Not Public		1,300		1,700	
Moody's required capital @ 1.3x	Not Public		1,690		2,210	
Moody's total capital	Not Public		2,000		2,400	
				Growth over		Growth over
				6/30/07		6/30/07
Statutory UPR	270		302	12%	512	90%
PVI	404		554	37%	655	62%
Total future premium	674		856	27%	1,167	73%

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