



# Assured's Response to Moody's September 12, 2008



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- **AGC and AG Re remain Aaa and Aa, respectively, under Moody's existing criteria**
- **Current macro-economic environment does not justify lower company rating**
  - Moody's issues are based on future developments that are very hypothetical
  - AGC's financial profile remains very strong
  - No hard evidence to support Moody's concerns about future credit or market performance
  - Ratings are supposed to take into consideration a full economic cycle not just near-term environment
- **It is not appropriate to extrapolate Assured's performance from Ambac/MBIA's experience**
  - Assured's portfolio is far less exposed to high volatility risks

Key Factors	Weight
Strategy & Franchise Value	25%
Portfolio Characteristics	20%
Capital Adequacy	30%
Profitability	15%
Financial Flexibility	10%

# Franchise Value: Competitive Dynamic



Moody's Views

Assured's Response

[Proprietary data omitted.]

# Franchise Value: Extreme Sensitivity to Market Confidence



## Moody's Views

- **Franchise value remains highly sensitive to moderate changes in quality of the insured portfolio and capital levels**

## Assured's Response

- **Market confidence has been impaired by rating agency inconsistencies and volatile ratings actions**
- **Market confidence is sensitive to major changes in credit quality that threaten a company's solvency or ability to pay claims**
- **Moody's view based on period of less than one year**

# Franchise Value: Shrinking U.S. Municipal Market



## Moody's Views

- **Increased investor tolerance for unwrapped transactions**
- **Market shift toward alternative enhancement products**
- **Uncertainty about long term demand for FG due to change in ratings scale and other factors**

## Assured's Response

- **Demand for credit enhancement is still strong; Moody's view is that insured penetration returns to 35% over time**
- **Investors desire rating certainty and stability; rating volatility has depressed investor confidence as much as rating changes**
  - Core of muni market favor credit enhancement: large number of small issuers, limited financial information, retail investors
- **Letters of credit are only a viable alternative in the VRDN market**
  - Availability limited with bank capital under pressure
- **Corporate Equivalent Ratings will have a modest impact on bond pricing and spreads, especially in revenue bond and enterprise sectors, which continue to present strong opportunities**
  - Moody's estimated two notch difference for tax-backed bonds and one notch for enterprise-backed bonds
- **Assured's franchise has expanded**
  - Market share has grown exponentially
  - Continued solid production despite negative credit watch – closed 129 transactions; \$2.7 billion of par since review started

# Franchise Value: Shrinking U.S. Municipal Market (cont'd)



## Moody's Views

- **Increased investor tolerance for unwrapped transactions**
- **Market shift toward alternative enhancement products**
- **Uncertainty about long term demand for FG**

## Assured's Response

- **Bond insurance provides liquidity to smaller GO issuers which are too small to warrant interest from institutional buy-side firms and their limited research staff**
- **Demand for credit enhancement is expected to remain strong especially in revenue sectors such as private higher education, non-profits, healthcare, transportation, power, and project finance sectors which accounted for 50% of AGC premiums in 2008**
- **In 2008, more than 88% of the public finance par written was rated in the 'A' category or better versus 2007 when 54% was rated in the 'A' category or better. Demand for insurance is still strong in the A-rated category**
- **Despite the inability of the distressed bond insurers to participate in the market, the credit enhancement penetration rate remains significant at nearly 40% in YTD 2008 (including LOCs)**
- **The Public Finance Group's year-to-date performance, which includes par insured of \$23.1bn or 536% ahead of full year 2007 and year to date premium written of \$344mm or 572% of full year 2007, demonstrates strong demand for credit enhancement from Assured**
- **Future industry uncertainty should not affect current ratings**

# Franchise Value: Sharp Decline in Structured Underwriting



## Moody's Views

- **Future role of guarantors uncertain given:**
  - Decline in investor confidence
  - Concerns among muni investors over SF contagion
  - Uncertainty regarding timing and form of future structured transactions

## Assured's Response

- **Assured's 1H 08 production of \$180 million PVP exceed 1H 07 production by 50%**
- **Non-mortgage consumer credit outstanding reached over \$2.5 trillion in 2007**
  - In 2008, 27% of non-mortgage consumer debt outstanding was through securitization
- **In 2007, 59% of the \$11.2 trillion outstanding U.S. mortgage debt was securitized through both Agency (FHLMC, FNMA, GNMA) and non-Agency securitization**
  - 32%, or \$2.1 trillion, of the 2007 MBS market was non-Agency
- **Total annual business borrowing reached over \$3 trillion in 2007**
- **Financing alternatives are temporarily bridging borrowers through the current market dislocation**
  - Bank lending has partially supplanted securitization in the term capital markets in several asset classes
  - The Fed has augmented ABS funding through use of its own balance sheet with new programs that accept AAA or in some cases investment grade asset-backed securities as collateral for several lending programs
  - The Federal Reserve Bank & the Treasury will both be providing direct relief to the Government Sponsored Entities through lending, direct purchase of their MBS securities or possible equity infusions

# Franchise Value: Sharp Declines in Structured Underwriting (cont'd)



## Moody's View

- **Sharp decline in structured underwriting**

## Assured's Response

- **The ABS market will return as ratings stabilize**
- **Current financing alternatives are strained and ABS execution is more efficient**
  - Bank financing is not infinite – capacity is limited and tighter capital controls from increased regulatory oversight are likely to limit bank financing further
  - Current Federal Reserve actions are temporary and creating an asset mix outside the Fed's norm
  - GSE balance sheets are under pressure; the only replacement source of funds in size is the securitization market
- **The recent slowdown in ABS due to market conditions is temporary.**
  - Underlying assets still need to be financed
- **ABS evolved because of its relative advantages vs. secured lending.**
  - Bankruptcy remote
  - Decouple rating of assets from ratings of servicer and/or originator
  - Shifts assets off bank balance sheets, continuing the general trend of disintermediation that has been underway since the 1960's
- **Monoline participation within the securitization markets has benefited issuers and investors.**
  - Separates credit risk from funding, liquidity, prepayment and extension risks
  - Provides access to a greater investor base, enhancing the liquidity of smaller issuer names and various asset classes

## Moody's Views

- **Large single and sectoral risk concentrations**
  - US RMBS
  - Life Securitizations
  - TruPS
  - European RMBS

## Assured's Response

- **Capacity at AG Re to reduce AGC's excess WCL to Aaa levels while maintaining AG Re's excess WCL within Aa band. Proposed cession from AGC to AGR will improved balance of risk between companies relative to capital.**
  - Ceded Portfolio
    - Total NPO approximately \$2.5 billion
      - \$2.0 billion on 18 large single risks
    - \$0.8 billion reduction in AGC WCL in excess of 10% of Hard Capital (see appendix)
    - Adds \$25 million to capital cushion
- **TruPS portfolio can withstand 50% default rate of bank and insurance collateral and 65% default rate of REIT collateral**
- **European RMBS is prime, Aaa and diversified by vintage and geography**

## Moody's View

- **Rising macroeconomic stress**
  - Potential for deteriorating structured performance under prolonged periods of macroeconomic stress
- **Exposure to event risk**
  - Susceptibility to unanticipated adverse developments in potentially volatile sectors with large risk concentrations

## Assured's Response

- **Modeling tail loss at 99.99% confidence level should take this into account**
  - As underlying ratings change, the portfolio model incorporates the incremental capital required

## Moody's View

- **Current Assessment**
  - Limited cushion relative to Aaa threshold
- **Future outlook**
  - Deteriorating RMBS performance
  - Sensitivity to other structured finance exposures

## Assured's Response

- **AGC meets Moody's Aaa standards at the 99.99% confidence level with a cushion of approximately \$150 million (per Moody's at meeting of 9/4)**
- **Increased ratings due to global scale for public finance will modestly increase cushion**
- **Adjusting for overcharge on international regulated utilities significantly increases AGC's cushion**
  - 30% decrease in tail loss equates to ~\$110 million increment in cushion
  - Significantly greater impact on AG Re
- **\$2.7 billion in force earnings stream provides strong base to meet future loss developments.**
  - \$1.2 billion of unearned premium and \$1.5 billion of future installment premiums
- **Sensitivity should be handled in model, tail was at 99.99% confidence level**

## Moody's Views

- **Normalization of premium rates in public finance**
  - Public finance premium rates will likely decline to historical averages and could decrease further given potential changes relating to competitive dynamics and other rating factors
- **Structured finance market severely disrupted**
  - Premiums from structured finance, which accounted for 64% of AGC's premium generation in 2Q 07, dropped to 24% in 2Q 08
- **Reserve development**
  - AGC's profitability in the near term will be linked to reserve development in RMBS and certain other exposures

## Assured's Response

- **Premium rates will normalize over time**
  - No support for further decrease
  - Credit risk concerns in both the municipal and non municipal markets will continue to support pricing levels
  - No anticipated unfavorable change in competitive environment
- **Assured wrote 50% more structured finance premium in 1H 08 than 1H 07. Difference is due to increase in public finance to \$306 million in 1H 08 vs. \$24.2 million in 1H 07**
- **Reserve development over time will have an impact on returns. However, Assured has built up a future earned premium stream of over \$2.7 billion, a 68% increase from 6/30/2007; With no incremental new business 2009 revenues would be \$496 million**
  - Includes \$308 million of earned premium and \$190 million of investment income compared to \$232 million of earned premium and \$128 million of investment income in 2007

## Moody's Views

- **Unpredictability of future execution**
  - Potential for a dramatic constriction of financing options if material losses were to be incurred and /or uncertainty about future losses was high
- **Alignment of interests**
  - Interests of shareholders and creditors tend to diverge during times of stress

## Assured's Response

- **Financial institutions have shown a consistent ability to raise capital, despite market conditions.**
- **Public companies have proven, direct access to capital through the markets**
- **Public financial institutions have raised in excess of \$118 billion in 104 separate offerings during the past 12 months (excluding private or hybrids).**
- **Ambac and MBIA raised \$4.05 billion (including MBIA's \$500 million from Warburg Pincus and \$1 billion in surplus notes).**
- **Subsidiaries do not have direct access to capital and rely on owners whose objectives do not always align**

## Moody's Views

- **Unpredictability of future execution**
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## Assured's Response

- **Assured has demonstrated its ability to raise capital in difficult market conditions**
- **In 2008 Assured has been approached by a number of investors interested in investing in the Company**
- **In addition to direct capital market execution, Assured has other options to access capital:**
  - Private placement of common, participating, or convertible equity
  - Reinsurance agreement with a Aa rated financial guarantor
  - Sale of minority equity stake in AG Re. Public offering of a portion of AG Re is also an option.

## Moody's Views

- **Unpredictability of future execution**
  - Potential for a dramatic constriction of financing options if material losses were to be incurred and /or uncertainty about future losses was high
- **Alignment of interests**
  - Interests of shareholders and creditors tend to diverge during times of stress

## Assured's Response

- **Financing alternatives:**
  - [Proprietary data omitted.]
- **Beyond our existing shareholders, Assured has been approached by a number of substantial investors interested in investing**

- **Franchise value and strategy**

- The monoline reinsurance universe has gone from 6 participants to 1 with AG Re as the only viable reinsurer available to the monoline market
- Current market disruptions have provided significant portfolio opportunities despite primary market slowdown
- Prospective new companies will not have the size or portfolio diversity to undertake large transactions without reinsurance support

- **Portfolio characteristics**

- Size and mix provide sustainable earnings with 70% of the book comprised of U.S. municipal and international project finance
- Current portfolio opportunities are predominantly public finance
- Future opportunities are likely to be weighted heavily toward public finance and international infrastructure

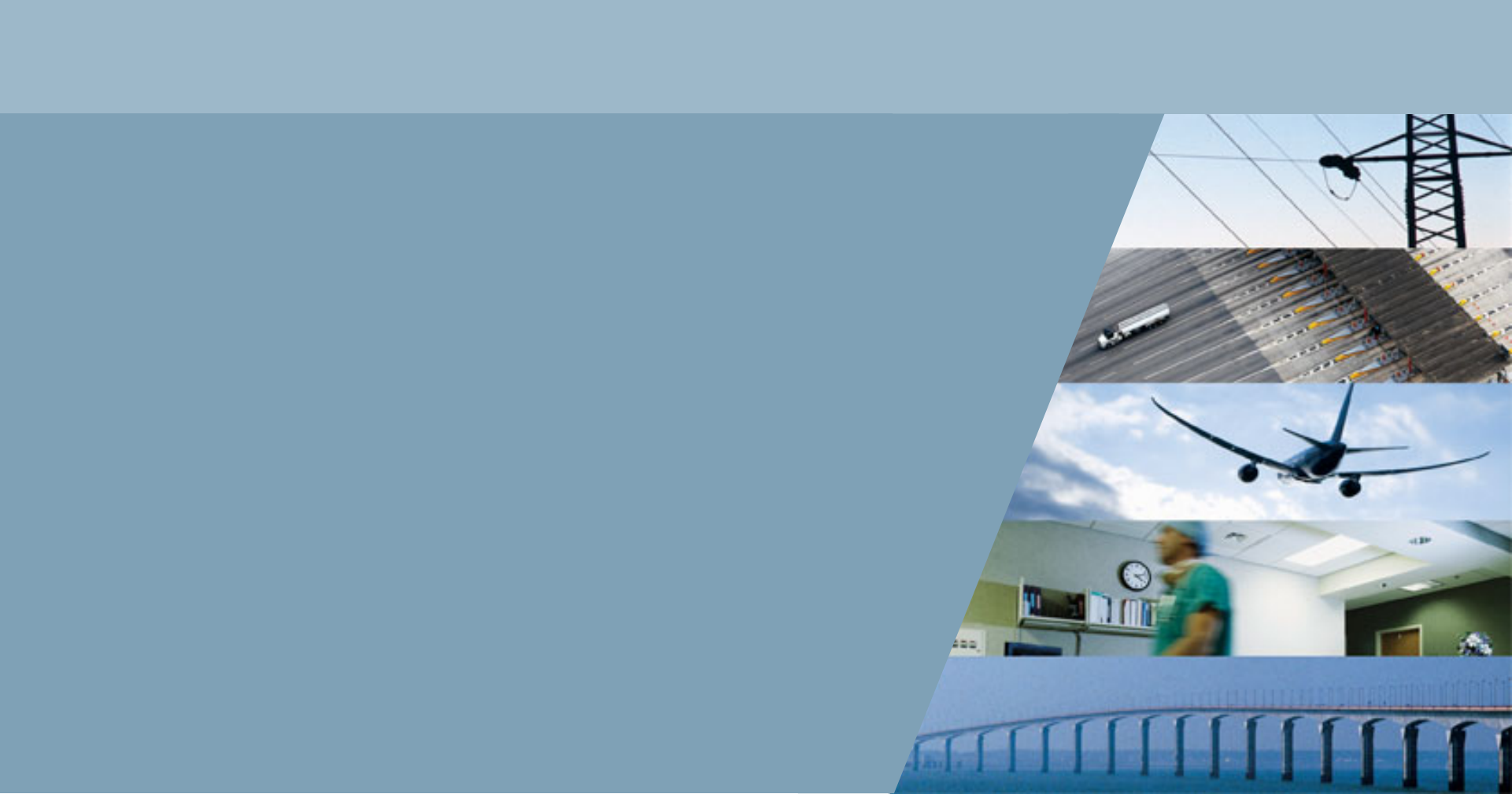
- **Capital adequacy**

- Well capitalized at the Aa level with a \$250 million cushion

- **Commutation of XLFA book in Q3 adds to cushion**
- **Profitability**
  - Large portfolio transactions have been written at historically high rates of return creating strong embedded stream of earnings
  - Portfolio shaping and adjustments to ceding commissions have been used in portfolio transactions to produce returns in the high teens and into the 20 percent range
- **Financial flexibility**
  - Financing has been available to support large portfolio opportunities
  - Potential for a reinsurance sidecar would provide additional source of capital if demand were sufficient

- **Current macro-economic environment does not justify lower rating**
  - Moody's issues are based on events that are very hypothetical
  - No hard evidence to support Moody's concerns
- **It is not appropriate to extrapolate Assured performance from Ambac/MBIA events**
- **Assured has shown continued, solid financial stability during market dislocation far beyond what anyone anticipated**

**[This presentation included as appendices the pooled corporate presentation dated August 22, 2008 and the public finance presentation dated September 12, 2008, both of which have now been provided separately]**



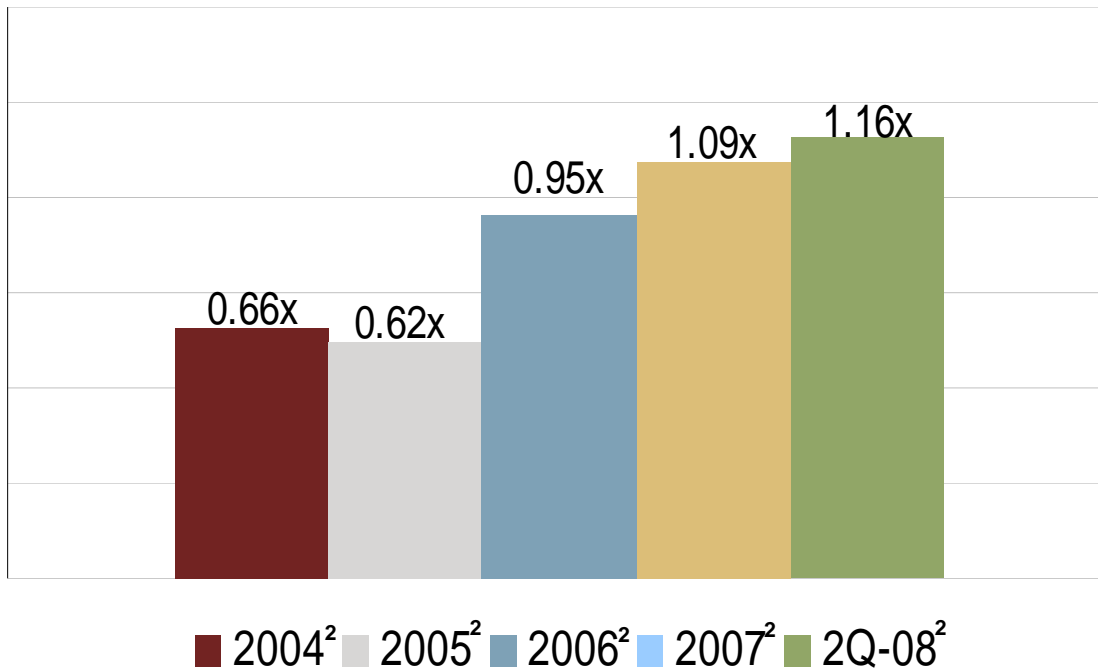
## Appendix

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# Strong Earnings Model



**Ratio of Estimated Future Earned Premiums<sup>1</sup> to GAAP Equity Adjusted for Mark-to-Market<sup>2</sup>**



- **Assured's existing premium base provides a strong revenue base**
- **Assured has built a pipeline of future premiums**
  - \$1.2 billion of unearned premium reserves as of June 30, 2008
  - \$1.0 billion of present value of estimated future installment premiums<sup>3</sup>
- **Our earnings leverage exceeds most of our peers' 2006 leverage, a time when their ROEs were in 12-15% range**
  - MBIA<sup>2</sup> 0.86x
  - Ambac<sup>2</sup> 1.02x

1. Estimated future earned premiums is net unearned premium reserves plus estimated future installment premiums (calculations for 2004 and 2005 include statutory unearned premium reserves and net present value of estimated future installment premiums<sup>3</sup>)  
2. MBIA, Ambac, 2004, 2005, 2006, 2007 and 2Q-08 GAAP equity is adjusted for net unrealized mark-to-market gains/(losses) on credit derivatives  
3. Please refer to the appendix for explanation of non-GAAP financial measures [net present value of estimated future installment premiums in force].

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