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### **Sabra Purtil - Assured Guaranty Ltd. - Managing Director - IR**

Good morning and thank you all for joining us today. I know there's a few people still out in the foyer who are joining us and while they're doing that I just wanted to go over a couple of logistics for Investor Day.

First of all, with an obviously very busy and exciting year for Assured Guaranty, a combination of the market turmoil, the acquisition of Financial Security Assurance, as well as everything that's been going on in the global capital markets has certainly made it an interesting year for a lot of activity with Assured and its management team.

We're all excited to be here today to talk not only about 2009, but more importantly 2010 and what the future holds. In terms of the agenda today, the first part will be the strategy and financial outlooks covered by Dominic Frederico and Bob Mills.

We will have a Q&A period at that time and the Q&A period is open for those who are on the webcast and there are instructions on the internet for submitting questions. We'll have a break around 10:15 and then the second part of the presentations will focus on the Direct Financial Guaranty business as well as our credit and underwriting and the portfolio risk management portion.

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We'll have a Q&A period after that for those sections of the presentation and then for those of you who are here in New York with us we invite you all to join us for a buffet luncheon which management will be attending.

Before we get onto the actual presentations I just need to cover a couple of technical issues. As you know, our presentations here today are covered under the Safe Harbor Provisions of the Private Securities Reform Act of 1995.

For those who are listening in replay form please be advised that the statements that management is making today are current as of today's date and they may be subject to actual performance and risk factors that influence the ultimate outcome of transactions or our ratings, business growth and other factors.

So you should contact our website and our SEC filings for the most recent financial disclosures and statements regarding the company. I also wanted to note that our presentation today contains several non-GAAP financial measures that are not in accordance with US generally accepted accounting principles.

Those terms which we use in our press releases and in our presentation include present value of new business production or PVP, operating income, operating shareholders equity, operating return on equity, adjusted book value, net present value of estimated future revenue on credit derivatives enforced and PV originations which was an FSA term similar to our PVP term.

For definitions and the reconciliations of those non-GAAP financial measures please refer to the appendix which is in the presentation for the reconciliation as well as the whole definition and why management uses these terms in our presentation.

I also just wanted to make a couple of notes relative to the slides because we're trying to keep the foot notes with all the references to a minimum for the presentation itself. First of all when we refer to ratings on our net par outstanding or underwriting we are referring to ratings based on Assured Guaranty's internal rating system which is comparable to the ratings system used by the nationally statistically rated rating agencies but it is not the same.

However, on our investment portfolio we do use the ratings used by the rating agencies using the lower of the Moody's or Standard & Poor's rating on the securities that we hold in our investment portfolio.

I'd now like to briefly go through the presenters. Dominic Frederico, as you know, is our President and Chief Executive Officer. He's been responsible for Assured Guaranty since 1999 when at ACE Limited he was responsible for the acquisitions of Capital Re-Corp our predecessor company.

Dominic joined Assured Guaranty to lead the initial public offering that we held in 2004 and has been obviously our President and Chief Executive Officer since that time.

Bob Mills our Chief Financial Officer joined Assured Guaranty in January 2004 as part of the company's initial public offering. Prior to joining Assured he was Managing Director, Chief Financial Officer and Operating Officer for UBS for the Americas region and prior to his position at UBS he was a Senior Partner at KPMG for many years.

Sean McCarthy has joined us as part of the FSA acquisition. Sean joined FSA in 1988 and had a series of promotions and additional responsibilities. He became Chief Operating Officer of FSA in 1997 and coincident with our acquisition of FSA in July of this year he has been appointed Chief Operating Officer of Assured Guaranty Limited, our holding company, as well as Chief Operating Officer of Assured Guaranty US, which is our US holding company.

Howard Albert, I know many of you know from our prior investor day as well as your meetings with him. Howard is Managing Director and Chief Risk Officer for Assured Guaranty Limited. He joined Assured Guaranty in 1999, back when we were just starting to work on a direct strategy for Assured Guaranty which at that time was principally a reinsurance company.

He's held a series of positions at Assured Guaranty but has been responsible for the risk credit underwriting of Assured Guaranty prior to the 2004 IPO and continues in that responsibility today.

Russ Brewer who has joined us with the FSA acquisition is our Chief Surveillance Officer. Responsible for evaluating, monitoring and risk rating the portfolio that we have in force which is more than \$240 billion of exposure with the combined corporation. Russ has a long history in the financial guaranty business having joined Assured, excuse me, having joined FSA in 1986, prior to which he was at Moody's. With that, I would like to turn the presentation over to Dominic.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Thank you, Sabra, and good morning, everyone. What I'd like to cover as quickly as I can is a kind of backwards look at Assured from the perspective of the IPO since this is an investor day and it's all about value to shareholders.

I think it would be good to look at it from that perspective and talk a little bit about the current environment and what we would look to in terms of the future and then mention some other things of significance relative to the performance of the company and the market place in general.

As we look at the company today, having been an IPO in 2004 and, therefore, being at the bottom of the industry ladder, today we represent ourselves as the global leader in financial guaranty. As you can see the growth numbers on the chart we have a 622% increase in our total net par outstanding and a 489% increase in total assets. I think two outstanding results, especially in light of the market that we've had to experience.

When we came out in '04 we were one of seven companies. We were the lowest rated of the group and therefore our market presence was very challenged at the time and then, of course, the economic crisis over the last two years, I think really then and we look at these charts provides the basis to show how our company distinguishes itself.

When we started out in '04 we basically had five strategic priorities, expand the direct business, exercise strict underwriting discipline, attain AAA ratings for the time we were split rated, maintain our reinsurance franchise and look at our capital on a very efficient and effective basis.

So how did we do on those measurements? Well, if you look at the expansion of our direct business, as you can see on the chart we've had a tremendous amount of growth from 2004, basically writing \$69.7 million of insurance at the time in terms of premium up to a 2008 record \$700.7 million. And although year-to-date '09 trails that, remember '08 was a unique year relative to the truly beginning of the crisis relative to the other competitors. There was a lot of refinancing activity.

So '08 is an aberrational year and as we look at '09 obviously we expect '09 to exceed '07 which is a more representative year, so just a steady track record of growth. And as you look at the insured par going from less than 1% back in 2004 to now 84% in 2009, once again a very strong track record.

Another part of the strategy and we were very opportunistic as we looked for ways to continue to build our direct model. Obviously the FSA acquisition is a significant achievement and really represents the corner stone of our future growth plans for the direct business.

As you know, in the FSA acquisition we did not acquire the financial products business that remained with Dexia, so it really was just the financial guaranty. And although there are some exposures in the financial guaranty market relative to the business we are indemnified on those by Dexia and backed up by both French and Belgian Governments.

As I said before if you look at 2008 we are on track to have the greatest year in public finance for both companies combined in our histories save 2008 which as I said was benefited by the strong amount of refinancing at the time.

Second goal was underwriting discipline and this chart looks at the AGC losses against the industry losses. And as you can see in every year we've tracked significantly better than the industry. So when we say that underwriting this job won we took that very seriously. And we were able to pretty much as we looked at the markets and back in '04, '05 we were concerned about the real estate market.

And although we had a market share requirement for Moody's we decided if we're going to take risks, we're going to take risks very high up, try to be as far away from the noise as we possibly can and of course we avoided the CDO, ABS problem that seems to have haunted most of our competitors. So in terms of do we deliver on our promise of underwriting discipline I think this chart would very much support that.

As we look at the mix of the bulk in business today as you can see we're heavily dominated by public finance. The public finance business has a couple of very positive features, one, you get your cash up front, which is always important as you look at the bottom line from the contribution of investment income.

And number two, you have the ability because of refinancing to accelerate earnings through periods of heavy refinancing activity and there is a view that we could see in the future because of the need of further financing by state and municipalities that there will be some refinancing activity above normal over the next 18 months.

We've also exercised discipline because we've had a lot of opportunities throughout the portfolio transactions and yet once again we don't look at the overall earnings scheme of a portfolio. We don't look at the overall bottom line. We underwrite every risk within the portfolio and we carve risks out but we don't accept the portfolio if we can't do that.

Post-acquisition and even throughout this last 18 months we've constantly looked at our underwriting guidelines and standards and made sure that we were modeling our approach from an underwriting point of view to mirror what we saw in the marketplace.

This is a great market where there are significant lessons learned and we've been going through a series of restrictions of limits, actually eliminations of some businesses from accepted underwriting going forward as well as looking at higher credit quality or higher attachment points on other types of deals.

And number two, as we looked at the combination of the two companies we did a really good portfolio analysis to say where are we now, too overleveraged or too long in certain risk exposures.

So if you look at our book of business then we would not anticipate writing any corporate exposure for the foreseeable future as well as any residential mortgage back securities for the foreseeable future and mortgage back securities might have additional reasons beyond just concentrations.

Our next goal was to maintain ratings or to improve our ratings. And we try to do a schedule as best we could to compare ratings against the rest of the marketplace. And as you can see clearly defined on the chart we're the only company that has maintained reasonably high ratings throughout this entire financial crisis having started at a disadvantage and kind of worked our way through in terms of the market versus the competition.

As you can see the current level of ratings, we think the ratings hopefully have kind of hit their radar in terms of where the rating agencies were going with stress models. You can never say that with any real certainty but at the current level of stressed losses and the implied default implications that has it's hard to believe they could take it any further than it already is today.

And hopefully there are signs on the horizon of some better news in terms of the performance of the residential mortgages back market place, especially if the current push out of Washington to significantly increase the use of loan modification starts to take hold. We think that's got true opportunity for us in terms of further improving our performance.

In terms of maintaining the Reinsurance franchise, the Reinsurance franchise to us is strategic in a lot of ways. One, it was the ability for us in the early days to balance the portfolio when we, the direct company, wasn't about to write a lot of public finance business, the reinsurance company wrote the majority of public finance business.

So if we look at the overall aggregate portfolio model it provided us good balance. Number two, obviously the implications relative to capital earnings using the offshore facility are significant both from an external and internal reinsurance opportunity.

As we look at the market today, we do see opportunities for further portfolio activity. There has to be some decision made on behalf of some of the insurance commissioners as to how they look at either further aiding or resolving the companies that do not trade in the market.

So we're reasonably optimistic that there will be portfolio opportunities going forward as well as we're trying to position the Bermuda Company as the company that would write credit default options on a going forward basis because it's still our firm belief that there will be a lot of new regulation relative to the restriction of credit default swaps than by the direct companies here licensed in the United States.

You get to the very important question of capital efficiency and as we said in our recent press releases we raised capital recently to really support ratings and not really to support the business plan. That's the worst kind of situation to be put in but as a company we thought it was still best to maintain ratings to allow us to trade in business and although the capital is diluted relative to earnings per share at the current price it's accretive to book value. So it kind of depends on what your measurement criteria is, it's either very good news or at least it's news that you can support from a company business perspective.

Even having said that, if you look at the chart we've grown net par outstanding at a faster rate than we've grown equity so that we're constantly leveraging the equity against the bigger portfolio and as you look at that portfolio composition from a few slides back, predominantly dominated by the public finance business.

So it's good news in that its getting higher leverage, even better news is being leveraged against a portion of the book of business that at least most people in the market place view as stable as well as the beneficial nature of public finance in terms of investment income and refinancing opportunities. So having looked at the past and the value proposition that we've made since the IPO and the performance against those goals, where do we see our goals today?

Well, underwriting still remains job one. That's never going to change. We're in a business that although you do expect to have losses, losses have to be maintained, they have to be very managed. We spend a lot of time in looking at our portfolio and if we do think that there are issues in how we can best remediate or mitigate those issues the direct business is still the platform of choice in how we want to build our company.

Obviously now with the combination of both FSA and Assured, now FSA being named Assured Guaranty Municipal we think we have the best opportunity in terms of building that platform going forward.

Where do we start the notes? Obviously we think government regulation could have a significant impact. At this point we view what's being talked about in Washington as a positive. Some people say as we ask for some sort of an overseeing regulator, be it Federal or a Super State regulator that would really take responsibility for the capital models and financial guaranty industry.

Then there's warnings out there be careful for what you hope for. You just might get it. We still think it's a significant improvement over the current model where its very hard to sit here and try to develop strategic plans and use of capital when your capital requirements changed outside your own models and rather dramatically and you're put in the position that if you don't meet those capital requirements your ability to trade is going to be significantly impacted.

The combined company also has a focus, we've always been a reasonably risk focused company. We've had a risk management committee within the board for as many years as far as I can remember. Howard Albert who used to be our Chief Credit Officer now runs Enterprise Risk Management for the entire firm. I think we've built a reasonably sophisticated model and approach to that.

As we've said in terms of looking forward in terms of business because of portfolio concentrations and concern over the ability to underwrite and that's a good point and in terms of US RMBS and pool purpose more from an aggregate point of view would not be in our business plans for the near future.

Our key markets will continue to be the predominantly public finance. As I said we think that if you look at the public finance market today the amount of business we're doing is reasonable but the most important thing you've got to look at is as we see our run-off of earnings, the goal of the company then is to constantly replace that earnings momentum with new writings.

Currently we write about anywhere between \$100 million and \$150 million of public finance order through this current market sector and basically no structured finance because that market has been pretty much dried up although we've written some deals.

As we look to 2010, one, you expect to see the structured finance business coming back and obviously it'll come back in a different way. There'll be a little bit more structure put around those deals so that you won't have any acceleration, you won't have any collateral requirements embedded in any deal. More importantly you'll look at basically what I'll call the more permanent assets.

We used to use the term assets you can kick, things that are granular that allow themselves to be underwritten that don't have a huge fraud element in any aspect of the business and we think that becomes part of a market going forward.

Number three, we obviously think the international market will return in some capacity. So as we say to ourselves what's an efficient business model going forward, it's probably around anywhere between \$1 billion and say \$1.3 billion of the present value of premiums to be written in a year which kind of replaces the earnings stream that we're going to be burning off as we absorb the current portfolio's.

On our premium reserve, public finance today is giving us anywhere between say \$400 million and \$600 million. But that is a very understated amount because if you look at the analysis of that business the biggest benefit of the business in terms of size is large transactions and we define large transactions as anything about \$100 million.

And currently, we're averaging, for about 3% of the deals done the issuances are greater than \$100 million. In the past that number was 6%. And when you just think of the different exchange if you can get back to a 6% model even though the over a \$100 million deals only occupied 6% of transactions done they were 40% of premium.

So just start to do the math in gearing up the 3% to 6% and we see what the beneficial number would be relative to the premium written. So you can easily move that \$600 million up to \$800 million to \$1 billion by itself.

And then with any level of participation in terms of international business as well as the structured finance business you can see then that we can achieve that kind of optimum business of volume of somewhere between \$1 billion and \$1.3 billion that will continue to keep the earnings model perpetuating going forward.

In terms of the reinsurance we will still continue to look for portfolio opportunities. As I said, I expect to see some of those in 2010 as some of the companies that have not traded that have kind of tried to resolve the outstanding liabilities they have on their structured finance books wind up with an embedded portfolio in a non-rated company that I think in most cases the insurance commissioners would agree should be in the hands of higher rated, stable, well capitalized companies and we look forward to that opportunity.

You can see to the right of the slide some of those portfolios that we are thinking about and targeting. Additionally we think the Bermuda platform can support our direct business in terms of credit default swaps written out of the Bermuda platform.

We've got this structure in place to do international business and we're trying to complete the structure to allow us to do domestic business as well. And as new competitors emerge obviously the first thing any competitor would need is reinsurance so they can balance out their portfolio.

Last thing you want to do is start a company and start to write outsized risks and leave the company exposed in their capital base to those outsized risks based on what they're able to write. Reinsurance is a natural way to help them manage their capital and their risk exposure.

In terms of the ratings obviously the capital raise we've done recently is to support ratings. We're hoping that the ratings position now gets stabilized and that's going to depend on two things.

One, where the economy continues to go and seems to be going in a positive trend and, number two, what is going to be the value and the timing of recoveries off of the repossessions and warranties and I'll talk a little bit further about that later on.

But those two things are really going to be indicative of where our capital asset suite goes against the rating agency capital requirements. We're comfortable today obviously with the capital ratings we just completed.

It's significant in terms of helping us achieve that. And then as we look forward we see a good earnings model. We also see a significant benefit from the run off of the existing structured finance portfolio because if you think about it basically over the last 18 months it's been kind of a gloomy market.

So if you don't write anything and you get the benefit of the run off and since that run off is one of the biggest significant capital contributors to the rating agency capital models you'd expect to be put in a very strong capital position.

And of course then the challenge is, well, what are you guys going to do in a strong capital position? Well you're going to do one of couple of things. One, you're going to either argue for a lot higher rating and if we think a higher rating has more value relative to the business execution that's the direction we go.

Two, we obviously believe in the opportunities for portfolio assumptions that are out there that will also allow us to leverage that capital even further.

Three, in the absence of those two you'd look at a dividend policy that might be more beneficial given the base of our shareholders that would we think about increasing the dividend rate and then, of course, last but not least, is capital buyback or share buyback to the extent that you think that's a good deployment of the capital.

So we have a couple of other new business opportunities that we're looking at that would also allow us to utilize the capital. So we're not concerned although we do see an opportunity for excess capital in the near future.

We do think we have the ability to put it to use and to the extent that the use factor is different than what we originally modeled in terms of capital requirements then we will follow the other positions of either dividend or share buyback.

As you look at the run off this is a good indication of just the Assured Guaranty municipals run off of their book of business in terms of structured finance.

And you can see how quickly that runs down through say 2012 from over \$90 billion today to just over \$40 billion in really what is another three years. Additionally, we'll look at reinsurance opportunities that further accelerate that pace of run off.

But the goal is to make Assured Guaranty Municipal as predominantly or strictly a municipal only greater going forward and if you look at the composition of the portfolio it'll be significantly dominated by the municipal business.

That runoff that's here as well shows you the indication of where we believe you're going to free up a lot of capital as we go forward. So the capital will get freed up for both the true run off of par and also at the certainty as the performance of residential mortgage backed securities becomes more actual versus forecasted.

The rating agency models in terms of stressed losses will have to start to indicate actual experience as opposed to the current level of rather dramatic forecasts. We will use the capital, as I said, to either improve ratings, deploy new businesses in terms of portfolios and other opportunities and then relative to other capital obligations.

Turning real quickly to what's going to be one of the key components going forward in terms of stability of ratings, stability upon performance in terms of loss activity and general capital view, our loss mitigation strategies have become a key feature and it's the only new strategic goal that we have that we didn't have in the original file.

So in 2004 you really didn't talk a lot about loss activity in our industry. Come 2009 it's become a very real factor that has to be considered and, therefore, the nice thing about financial guaranty and the type of contracts that we write we are afforded significant opportunities to be involved in the ultimate outcome of the performance of the collateral by taking rights to the collateral and exercising our rights under our contract.

So this lists a few of the strategies that we deploy in terms of loss mitigation. First and foremost is the put backs and the rep and warranty breaches and obviously we've talked a lot about how significant that is.

As you can see the numbers we've looked at over almost 21,000 files of loans. We get a significant amount of loans that do not qualify relative to the securitization and therefore they become part of our put back requests.

As we said, as of September 30th we received back \$146 million, that's kind of a small number relative to what we think is the ultimate amount of recovery. We do carry receivables which we've disclosed in our

10-Q relative to future reimbursements that we expect to receive and I think we feel very strongly about how the program has been managed.

How we've reviewed the file both internally and externally. The type of process we now have agreed with our major exposed counter party and therefore we look at that as a real ability to manage losses going forward to take out some of the development that we can possibly see if the numbers continue at the current pace as well as ultimately get reimbursed in even some of the losses that we've historically recorded. We've also been in the market buying back insured securities which has also represented a great opportunity for the company as we start to mitigate loss.

We look in the market, we have a dedicated group that just looks for insured bonds that are selling at a discount, based on some other people's perspective of value, and we just give you a representative transaction where we have currently outstanding \$60 million of bonds.

The estimated future claims we see on that of our loss model will be \$4.2 million and we were able to buy back \$12 million of the issuance at \$5.3 million. So representing a significant discount, \$6.7 million discount over the par. It covers our loss, the \$6.7 million against the \$4.2 million. It gives a 1.6 times coverage of loss so the embedded gain in the repurchase security covered the amount of the current loss outstanding.

Because you're buying it at such a discount and you look at the coupon you wind up getting an incredibly high yield on the bond as it sits in your portfolio and then we calculate how many years of interest will we have to receive to get paid back the full amount of the principal that we extended.

There's also a huge capital savings so the way these transactions work is that you buy back the bond, the bond comes out of your portfolio, so it no longer gets capital access or assessed by the rating agency therefore you've saved capital.

You look at the amount of the loss reserves we've got against the embedded profitability in the bond itself so you can obviously change your loss reserve view. Usually performing in terms of a coupon security yield and typically as you look at RMBS portfolio and we differentiate AGC from AGM.

The AGM portfolio losses that we could foresee in this type of a loss calculation are still due years out. We don't expect to pay any losses in the option arm or Alt-A for the AGC part of the portfolio for a minimum of three years. So if you look at a breakeven period of 2.8, with the loss payments not due for three years you can obviously see that you'll easily break even on this.

We also look at other remedies that we have. So we still have rights under the contracts like replacing a servicer if we don't think the servicer is doing an adequate job. Obviously we can bring in consultants. So we have other contractual rights also that will help us provide loss mitigation or at least begin to look at improving the loss experience that's currently being absorbed.

We're overwriting all of that so you say we've got good effective action points that we can make relative to poor performing in this case residential mortgage securities but one of the best defenses is to just have the portfolio run off.

The further we shrink the size of the iceberg the less problem you're going to have running into it. And as you can see since the fourth quarter of '07 or say first quarter of '08 we hit \$38.4 billion of outstanding.

Today we're down to \$30.2 billion, which is an \$8.2 billion run off, over the period of roughly a year and three quarters. That pace actually accelerates going forward so you can see that as the problem seems to be hitting it's peak in terms of prices and we've got these other good techniques that we're using principally the buyback and the rep and warranties. And the rep and warranties is a better story going forward than it has been in the past in terms of where we see ultimate recoveries in collections.

And they are starting to get a ground swell of support that this has to be looked at and is being looked at currently by the state insurance commissioners, by the Feds, by the treasury and even some attorney generals as to how best to address this problem if there is this level of endemic fraud in the process. Here you've got the benefit of just shrinking the app, so the problem becomes less of an issue as the portfolio continues to shrink on its own as well.

Last but not least in terms of a track record of success relative to beginning at the IPO and to today as you can see our adjusted book value per share today at \$54, \$59 represents quite a significant improvement over the roughly \$25 that we had at the IPO.

More than doubling since the company went public in 2004, so I think that's another strong view of what is the value of a company as we look at ourselves today on a going forward basis. With that I will turn it over to Mr. Mills.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

Here we go. I may be the CFO, but I'm not exceptionally mechanically inclined. I'd like to take just a couple of minutes. There're a number of members of our management team in the audience that you'll hear from later.

I just wanted to take a moment to introduce a couple of people. In the front row we have the Chairman of the Board, Walter Scott who has joined us today. He works extremely hard and does a wonderful job for us.

Walter if you can just raise your hand and let everybody know who you are there. Great. And on the financial side two of my principal supporters are here, Rob Bailenson, Chief Accounting Officer and Dennis Kim, our Director of Financial Planning. So they're the guys who do all the work. And they should certainly get some recognition. I'm going to talk today principally about the results of the acquisition.

We just recently issued the third quarter financials, the 10-Q and had our analysts call too. I'm going to take a step back and look at the acquisition and the impact that its going to have on us in the future because it's really substantial.

The first slide I have here focuses on the balance sheet. The acquisition was really great for us. We got it at a substantial discount. That benefits us in a number of ways. That discount or bargain purchase as it were will benefit us through growing it to income over the coming years.

That plus the fact that FSA itself was a very substantial business and had a very strong set of financial statements and balance sheets, looking at the balance sheet items here you'll see the principal focus investment increased to \$9.9 billion.

Add on top of that \$260 million of cash that was held, at \$9.30, it's over \$10 billion of investment assets add on top of that a substantial amount of money that we raised as a result of the equity offering last night and we have had an extremely substantial investment portfolio. And in a little bit, a few slides from now, I'll spend a little more time on the investment portfolio and talk about its structure in relation to bringing the companies together as well as the quality of that investment portfolio.

The other major issues are certainly unearned premium reserves. The unearned premium reserve grew substantially on a gross basis of \$8.6 billion. That's a number that is made up of purchase accounting adjustments. The largest portion of the discount or bargain purchase element of the FSA acquisition rolled into the unearned premium reserve as we mark to market the book of business that we received from FSA.

We'll talk more about the roll out of that UPR and the effect on future earnings in just a couple of minutes. So the effect on the balance sheet is very substantial. The UPR impact only affects the policies written in financial guaranty form. Those written in derivatives form have always been mark to market by both companies so there's really no change in that as we move forward.

Looking at the claims paying resources, the strength of the company has really increased dramatically as a result of the acquisition. In claims paying resourcing increased by \$7.6 billion up to \$12.6 billion.

This is the result of the acquisition, the purchase price benefit we received and also provides us significant strength in addition to our stand by lines of credit and stop loss of our soft capital investment.

The outstanding par grew dramatically from our \$222 billion up to \$631 billion. When you look at the investment portfolio this is a very substantial increase prior to the acquisition. As I said it's over \$10 billion when you include the cash position.

It's a very strong portfolio. The portfolio is there to support claims paying resources. It is a very conservative portfolio, the average rating of the portfolio is AA and it's weighted heavily at the present time towards short-term investments and cash. That short-term investment positioning and cash positioning is largely the result of the combination of the companies and the realignment of the portfolios.

That short-term position although we stay relatively liquid will decrease as we find opportunities, better opportunities to invest over the longer term and relatively near future. Looking at the pre-tax book yield it is 3.6%. The concentration in municipal securities is greater than it was prior to the acquisition and it will remain that way because of the increased presence in the United States that we have which we try and manage.

That effective tax rate is down because of the increased presence in the United States but we believe that the effective tax rate will grow. It will probably be in the 18% to 22% range as we move forward in the future.

When you look at the earnings power of the investment portfolio the third quarter of 2009 we had \$85 million of income. You have to also consider that included amortization of premiums in the market.

So that is a net number, net of amortization of approximately \$13 million. There is a great deal of disclosure in the financial statements and the financial supplement about the investment portfolio, that specifically focuses you on footnote eight to the 10-Q as well as our financial supplement which has a lot of additional detail and the management discussion and analysis of earnings in page 183 of 10-Q relative to that.

A substantial portion of the public finance portfolio is insured by other guarantors. We've always looked to the underlying security for the strength and the ratings of the financial guarantors not what drives our investment.

It's the underlying security underneath it. Operating expense reduction is certainly one of the things that we look to in any acquisition and certainly expect it from the investment community is the types of synergies that are going to come out of the acquisition.

When we look at how the organization has come together so far, I mean we've only really been together for a little over one quarter and I've been through a number of these in my prior life and certainly so has Dominic.

I'm very encouraged about the way that we have been able to integrate the organization already. I think Sean McCarthy will probably tell you how the business has come together at this point in time and I think that that's come together amazingly smoothly.

When you look at the integration as to what's been incurred to date, we spent a fair amount of time already consolidating the facilities the biggest place being here in New York where we moved into FSA's office space, have a very favorable long lease as a matter of fact, which is good for us. Bermuda is already integrated. London is substantially integrated although we'll finish vacating the space which was occupied by FSA in the fourth quarter.

There are certainly reductions in staff that are expected as a result of an integration. Those savings that we expect to get out of the integration are well underway.

Prior to the combination of the two companies the staffing was over 500. We've brought it down to 370 already. And as the slide indicates we'll be looking for another 15% to 20% reduction and the target, 300, by March 31 of 2010. The major aspects of the integration that we look forward to in the next couple of quarters are really associated with systems integration and controls integration.

We made the decision to take the best of both worlds relative to the system. We took FSA's front end and surveillance systems. We took Assured Guaranty's back end and accounting system. We will be bringing those together with a targeted completion date of March 31, 2010. The business systems are already well integrated and there is a fair amount of work to go but it is going well according to schedule at this point in time.

The cost that we have undertaken is to change in the accounting rules and 2009 relative to acquisitions for the arcane leverage of the accounting rules as the 141-R forced to expense all of the acquisition related expenses which previously in many cases was buried into the purchase price.

So you can see those dramatically, \$80.2 million of acquisition related expenses and we're pretty well done with it at this point. The major pieces of the acquisition expenses included severance costs, as well as costs to eliminate duplicate facilities as well costs such as advisors and investment banking fees. In the coming quarters there will be a smaller remaining piece of severance as well as the costs from the fourth quarter associated with the closure of the FSA office in London.

But we're looking at about \$10 million of remaining costs over the next three quarters. Up to this point in time we have disclosed those separately for you so that you can see the impact on the running rate of operating expenses as well as specifically identify those costs that are specific to this acquisition.

We'll continue to do that so that you can see those specific costs as they're incurred as well as keeping an eye on our operating expenses to see that we achieve the types of savings that we are hopeful to achieve.

Dominic talked some about the book value and adjusted book value and here the changes are absolutely dramatic. When you look at book value per share it's held up well. Stated that simply, when you look at the adjusted book value per share that's really where you see the benefit of the bargain purchase element of the acquisition of FSA.

The substantial increase in the unearned premium reserve comes into that calculation to give us that adjusted book value of \$54 a share. That is the earning power that's going to come in, in the future period.

That is an area of focus and benefit to our shareholders as we move forward in the coming years. Let's look at the unearned premium reserve roll out. This is really what I've been hinting at regarding the growth in the unearned premium reserve.

The roll out of the unearned premium reserve is very well detailed for you in the financial supplement as well as in the foot notes to the financial statement. The \$7.5 billion of net UPR is going to roll into income in future periods.

That's made up of \$7.5 billion net, \$8.6 billion gross, is made up of what was contributed from Assured, what was contributed from FSA and the purchase accounting adjustment. When you think about purchase accounting and you think about valuing the book of business the process is really for us to determine what the market would demand from us to step into the shoes of FSA to the various exposures.

When you think about that and one of the real challenges is allocating purchase price all the way down to the individual policyholder. So there's substantial amount of work done here and when you look at not only what a specific earning is but you look at risk premium, the lion's share of the purchase accounting adjustment went to the structured book and more specifically to the RMBS to take into account expected losses as well as the risk premium that we would charge in order to stand in for that position.

As a result of that being associated with the RMBS book and instruction book, the amortization of that UPR is on a relatively short life. So you saw already in the third quarter a rather substantial edition to earned premiums.

As you look to the fourth quarter, as you can see from the chart on this slide, the expected UPR amortization is in excess of \$350 million for the quarter. That will continue. There will be over \$1 billion in 2010 and it will decline after that but the benefit will go directly to earnings up to that point in time.

It amortizes to income on a specific policy basis and we will go over an example of how it works. Because one of the things that happens as a result of purchase accounting adjustments and the fact that Assured is subject to a rather arcane piece of accounting literature called FASD statement 163, we have to see how reserves were established by FSA relative to it's book of business is accounted for in the acquisition.

Give you an example here of how this will work, on the right hand side as you look at the slide you can see a chart of the components of the \$1.1 billion that will roll into income during 2010. Page 17 of the supplement gives you a complete roll out of how the UPR will come in and there's a couple of components to that. There's the gross UPR and then there is also the amount that's described or attributable to expected losses in the FSA book.

Historically if you think about a financial institution acquisition loan losses in a bank or losses just came across as part of a continuing balance sheet, under FAS163 the loan loss goes into UPR and it becomes a combined number.

UPR amortizes in according to the amortization of the specific exposure. Losses on the AGM book or the old FSA book are recognized only to the extent that they exceed unearned premium reserve. So you will recognize unearned premium reserve in a methodical lock step fashion and until that point in time that the loss reserves exceed the UPR do you have the recognition of loss.

So on an individual policy basis UPR will amortize down until it hits the expected loss level and then assuming there's no change in the loss profile. In other words, our estimate of loss reserve was good, going forward then you would see dollar for dollar unearned premium reserve coming down or being amortized into income and loss reserve being recognized at some point in time.

So as a result you see in the 2010 example on the slide that there is a gross earned premium number of \$1.288 billion. That will be diminished by the expectation that amortization will go down below the loss number for some specific policies to a total of (inaudible).

It's somewhat of an unusual way to account for things. It's really established by the accounting rules. So the loss reserves of FSA do come across and will be available to recognize losses as we estimate those. If those losses are to change in the future we could have greater earnings or lesser earnings but there's no loss expense recognized until a point in time that a specific loss exceeds the unearned premiums.

So as we look to 2010 assuming that all things remain equal you would see gross earned premiums of \$1.288 billion and losses or expenses associated with being FSA book of \$158 million. If you say that's not necessarily intuitive, it is balance sheet focus of FAS163 and the concept that both reserves in unearned premiums are a stand ready obligation.

So those are the concepts. I think this explains it pretty well and I am available to take questions on that either later today or separate. But loss reserves on AGM's credit derivatives book that occurs or will occur the same way that it would occur on Assured's books by the fact that its always been mark to market accounting so you're not subject to the same rules if you are under a financial guaranty policy under statement 163.

Loss reserves, so as we look at loss and loss adjustment expenses, loss and loss adjustment expenses will be recognized for three main components. Any loss reserves associated with new Assured Guaranty municipal financial guaranty products, any of the losses that I just talked about is associated with the roll-off of the unearned premium reserves relative to purchase accounting and any and all Assured Guaranty Corporation and AGRE financial guaranty contracts in excess of UPR going forward in the future.

When you look at the components you have a couple of pieces of it expected losses in UPR from the balance sheet a \$1.066 billion, this is all balance sheet numbers, the credit premium reserves relative to derivatives of \$371 million and the financial guaranty, insurance loss and loss adjustment reserves included in the balance sheet going forward.

So those are the balance sheet numbers of loss reserves that is sitting in three different places. I apologize if that makes it a little cumbersome for you to think through. But those are the accounting principals as prescribed by FSA.

Looking at some income statement expectations and although I never really did guidance on earnings per share or earnings, I always try and give you some information that will help you think through where we're going to be.

Certainly from the unearned premium roll out I've given you the numbers that I believe will be helpful for you to think about. Earned premiums going forward, the investment income going forward will certainly depend upon the interest rates but we have given you the current portfolio yield, I've given you some of the impact of purchase accounting, amortization premium.

Those are the main things that you need there. I'm not going to predict losses. I haven't done that in the past and I'm certainly not going to start that now. As we look to the operating expenses and we look towards savings we certainly expect these savings as a result of the acquisition to be \$125 million to \$150 million and we fully expect to achieve that.

Operating expenses are expected to be around \$50 million per quarter beginning in the second quarter of 2010. I'd previously stated that the acquisition expenses to occur in the coming quarter to be about \$10 million and the expected tax rate will be 18% to 22%. That will differentiate somewhat depending upon the jurisdiction that earnings take place in but I think that's a good approximation of what you can expect to see in the future.

Just a couple of words on the 2009 third quarter results, you certainly should be very familiar with that, we just completed the third quarter. The 10-Q is a plain exhaustive document at this point in time and has a wealth of information in it. But just to look at a couple of highlights, the growth in earned premiums driven by naturally the strongest at Assured Guaranty Municipal and Assured Guaranty Corp. and Assured Guaranty Re but also the amortization purchase account adjustment, the 286% growth year-over-year in earned premiums.

That will continue as I said before. That can't be underestimated the benefit of that in the corporation and the share holders going forward. Net investment income for the quarter is net of amortization of purchase premium.

So on a gross basis it is close to \$100 million, \$13 million, \$13.5 million amortization premium against that. A reasonably substantial loss reserve number, we talked a lot about that on the quarter. I won't address that specifically at this point in time and a solid substantial operating income number of \$70 million.

All in all I couldn't be more excited about the acquisition. From a financial standpoint, from an operating efficiency standpoint, this is a great deal. Add to that the impact of the benefit of buying at a substantial discount the book and I think, certainly from my point of view, this is for us, for our business going forward and our ability to generate substantial operating results.

I think with that questions and answers? You can ask questions, Dominic can answer them. No, either one of us will do it.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

Since there are mikes in the audience and we're webcasting, can people wait until you get a mike to ask a question and also for people on the Web if you submit your question then we'll put those in the queue.

## **QUESTION AND ANSWER**

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**Unidentified Audience Member**

Yes, hi, could you please give us your thoughts on the reasons for the change in the structure of capital rates. It's shifting from previously a split between a reinsurance transaction and primary equity rate. Now it appears that this primary equity rate and possibly reinsurance transactions (inaudible)?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

The question was the reason for the split from the previous announced equity rate is a combination of insurance to now predominantly equity raised. I think one was opportunistic in terms of what the market was telling us about, the future view, the performance of the stock and the buying of the stock to the capital raised business, the most flexibility -- thirdly, more importantly, rating agency I won't say friendly but in terms of their view of rating, rating stability, capital adequacy, equities grew at a lot higher level than the reinsurance transaction.

So it provided us greater stability relative to ratings outlook and the rating agencies, greater flexibility in terms of the ability to plan in the future, opportunistic in terms of where the share price has traded over the last couple of weeks and obviously the opportunity to upsize was a predominant factor.

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**Unidentified Audience Member**

Can you give us some color around the tradeoffs in terms of equity credit or were there other considerations between how rating agency views reinsurance versus prime rate?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Yes, so the question is tradeoffs in terms of equity credit and this is not universal. When you have three masters you've got to look at each of their rules and not all of them go in the same direction but there was a haircut that did apply to the reinsurance transactions although we were placing a given amount of capital relief into the market place with reinsurance.

We weren't getting same benefit of capital. Equity always gets full capital credit. The additional value of bringing additional cash in as Bob mentioned in terms of supporting future investment earnings was another positive relative to earnings stream to absorb obviously expenses and losses on the floor. So the capital is always 100% ready. It's the strongest view of capital that we have and the reinsurance takes various haircuts depending on what agency you're talking about.

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**Unidentified Audience Member**

All right, going back to the adjusted book value slide, what is the tax rate applied on the UPR on that slide?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

All right, so the question is it's a blended rate and it's based on our view of effective tax rates going forward. So it's more less what Bob is saying.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

It depends on the jurisdiction that the UPR is in (inaudible). How its going to be taxed, whether the UPR is going to be in the Bermuda subsidiary, the US subsidiary, or the UK subsidiary. So it's a blended rate.

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**Unidentified Audience Member**

But it's different from the 18% to 22% of the income statements?

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**Robert Mills - Assured Guaranty Ltd. - CFO**

Yes.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

Right the 18% to 22% would be including investment income. Keep in mind our investment income is 52% on a portfolio is a muni-bond, practically tax free under US rates, whereas for instance the FSA portfolio is largely in the US so the unearned premium on the FSA or AGC portfolio would have a larger tax rate of 35%, hence if you calculate the tax rate on the UPR and the adjusted book value it's going to show you the number 18% to 22%.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

The other adjustment that you have to make is as you look at the consolidated financials we break down the company remember the inner company reinsurance is eliminated in consolidation so it shows what you would think is a domestic piece of earnings is really a Bermuda piece of earnings because of no company reinsurance. So that's going to be another thing that's going to be tough to track for you look at our external financial statements.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

Segment information really won't help you there because segment information is only related to third party reinsurance. I mean what eliminates in consolidation as Dominic says isn't as evident although you do gain a tax benefit.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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**Robert Mills - Assured Guaranty Ltd. - CFO**

They are the absolutely two relevant questions that we have as well. If you think about the model today, S&P is still making AAA and though this evolved to an S&P only I've demonstrated that's the way ultimately it evolves.

What happens from Federal regulation? Relatively the whole aspect of the rating agency, their involvement, et cetera, in terms of our specific regulation and you're exactly right. What's the payoff of return relatively to AA level where we think it's very capable of executing the majority of the business that we have part of our strategic plan.

You could argue that, well, how much AA are you going to wrap? And Sean will point out in his presentation that the AA wrap business of the past is really not much economic value and you aren't getting paid a lot for it. So does the model make more sense in AA than AAA? And that's a good point. And that's something we've got to continue to look at. So it's going to be a factor of a lot of things going forward. The points are exactly as you outlined.

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**Unidentified Audience Member**

Dominic, with respect to the capital raise last night and the plans to use inner company capital support, how much rating agency capital did that create for AGC and where does it stand in terms of a capital cushion with respect to the various rating agencies?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

So the capital raise last night obviously represented 100% capital credit. The inner company capital and some other inner company reinsurance represents amount less than what the capital raise was last time. I think we talked about somewhere in the \$300 million range.

It depends on what rating agency you're talking about, how much cushion that provides. So in terms of it meets the requirements of Moody's, that's rather clear to the extent that it continues to significantly increase the excess capital that we have relative to an SMP calculation, that's relatively clear.

The future model is a little bit harder to view through but obviously Fitch made their determinations. Understand that we have some plans but no concrete amount, so we would anticipate that this would also help with Fitch cushions. But cushions to me are relative to today. And as we look towards the future I think there's going to be a lot of activity.

Our biggest problem today is the rating agency stress models. So it's not about what expected losses are, what losses are today, can we absorb them in our earnings model? Absolutely. It's as you start to say, "Well, what if worst gets horrific?" Well, we're in a pretty horrible time as it is. So to say that this now has a multitude, a multiplication of further negative experience.

Okay. Every rating agency has its own right to determine its assumptions and model. But what happens now is as we pass every month, and in order to meet the rating agency curve of loss expectation, this number's got to go substantially higher. So every month that you don't go substantially higher, either you're building a bubble at the end of their graph, which doesn't make any sense, or the graph starts to lower or the curve starts to lower itself.

So beyond the runoff, in terms of actual experience versus forecasting, we think the capital is going to be a positive issue going forward. As we talked, what do you do, do you try to improve ratings, is there value in the business model to do that. Do you look at other business opportunity because there's going to be portfolio activity. That becomes, hopefully, the buzz word of 2010 and not rating agency models in terms of capital adequacy to maintain business model.

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**Unidentified Audience Member**

What's the guidance in terms of the loss mitigation strategy around repurchasing the wrapped bonds? I mean, how big an opportunity is that, and what should we expect in terms of the magnitude of repurchases there?

And then a follow-up the conformation question, did that interest income that's generated off those portfolio, does that just run into the overall, portfolio interest income?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Okay, I'll do the first, you do the second. Did you get the second question? In terms of giving you guidance on loss mitigation through the buyback, that's hard to give you guidance. These are all opportunistic purchases. We have a guy who's in the room today, where is Walker, back there in the center.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

If you want to sell him bonds, he's over there.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

All he does is look for those securities in the marketplace, and it's not something that we plan, typically Mike finds it, sends us all a note, there's about seven of us that have sign off on the purchase. We have Board approval to a certain level of repurchasing, so we know what our fixed amount of funds that we can use for that purpose, and we just did one the other day. Right, so he finds it, he writes to us, we look at the amount of the updating that we have relative to that security.

Would this purchase represent as a component or percentage to that security? We look at our reserve, our loss expectation for that specific security. We then look at what the capital charge is currently coming out of the rating agency model, what the ultimate return is relative to the coupon and the multiplication by the discount. And say, okay, is this accretive across the board. So it's got to be capital accretive, earnings accretive, loss reserve accretive, and then we pull the trigger and buy it.

So there is no real forecast or projection. I think we got under \$100 million so far of cash and its par value is --Sabra?

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

\$350 million in the par.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Yes, \$350 million in par. So we're transmitting par. Again, it's just under \$100 million in purchasing. The sad part is that we move our profile up in terms of we looked at our credit default swaps spreads, where they've come in significantly over the last year. Those opportunities are harder and harder to find, because obviously the expectation is there is no issue with us.

And therefore, the securities are money good, but people just don't want wait. They want to put the cash to other purposes, et cetera. So we look for them but they're not something that we can count on, forecast, project going forward.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

The income statement impact is substantially through the investment income line. You can get a proportionate reduction in loss reserves if you put up loss reserves, but it's only proportionate, it's not full economic impact. The economic impact, the investment income, the accretion go through the investment income line.

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**Unidentified Audience Member**

Can you quantify how much net par you've ceded to other insurers that you'd be interested in bringing back onto your books, how much premium might be associated with that, and was that factored into your ratings agency discussions?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

That's a great question. As we said, there's a lot of other things we can do relative to putting the capital to use. One is us going out and acquiring portfolios. You hit on another part of our strategic plan going forward, is to recapture some of our reinsurance. Most of our reinsurance today, obviously, the Assured side was not a heavy external reinsurer, one reinsurer we continue to evaluate, whether it makes sense to pull that back or not. Obviously in most cases, the trigger for allowing you to pullback has already been breached, so you have that option or right.

In terms of the AGM, former FSA block, obviously that's a lot larger spread of reinsurance, and we continue to evaluate each component of that relative to recover and recapture. Exactly as you say, we look at what is the capital implications of pulling the portfolio back, the earnings implication. Obviously, at this point in time we're focusing very highly on the public finance portion of those portfolios.

In some cases, you have the right, but when we pull that back in other cases you've got to pull back the entire portfolio. So it's a constant evaluation process, and as we get more certainty beyond just the public finance piece through 2010 we will continue to look at that, and that's exactly it, an opportunity we do have.

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**Unidentified Audience Member**

So just in order of magnitude or is it \$20 billion net par, is it \$5 billion, is it --?

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

It's a - on a total basis of gross par, outstanding is \$716 billion. Our net and this is on a statutory basis, is \$631 billion. So there's about \$85 billion of ceded par. Then on our balance sheet we show you the ceded unearned premium reserve related to that, and that would be approximately \$1.2 billion.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Out of that \$85 billion of ceded par, a huge amount of it rested with Tokio Marine there are over \$23 billion of total par Tokio Marine.

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**Unidentified Audience Member**

Who were the other large?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

They're kind of spread far and wide. They're the most significant because - Swiss Re's got a piece, RGA has got a piece.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

I just have two questions from the website that I would like to ask you. First question is: what is your outlook over the next year for defaults on the public finance portfolio given the current environment and the municipal market? Secondly, what is your risk of ultimate loss on that portfolio given the economic environment?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

As Bob says, the great Karnack here will - let me pull the envelope out of the mayonnaise jar back here.

Obviously, we look at the municipal market to be a market of heightened credit concern probably over the next 6 to 24 months. As we've talked in a lot of our earnings calls, the municipal market is going to trail the asset-back market in terms of credit experience, because typically the municipal market has some rainy-day capabilities in terms of funds available or additional borrowings that they can execute.

So as the economic cycle goes down, they have means to support themselves through the early part, but then once you run out of using the rainy-day funds, you begin to have to address the harder issues about

the true fault, loss in revenue and receipts. So our anticipation is that the level of "technical defaults" will rise in the public finance market. Obviously, that's the benefit of our product. That's why we hope that, that will force that whole reconsideration of uninsured issuers and issues going forward and driving more demand back to the marketplace, which would be a positive.

Part of the whole idea of why you buy a financial guaranty reinsurance is A); number one, you get our set of bias in terms of the underwriting, but more importantly, you get the benefit of our terms and conditions in terms of the legal structure of the deal. And those terms of conditions have a lot of rights that we can exercise, that tend to mitigate in a large extent, economical. So you might wind up having a restructuring, a rescheduling. You might have additional pledges to support the debt service.

So a lot of the tools that are available to the financial guaranty market and to the holders of insured securities that we think will play out fairly strongly through 2010 and 2011.

In terms of the real economic loss, you have the history of the municipal market that has had a reasonable level of defaults, but very small economic losses because your severity curve is very small and where you typically get high severities, which is in the hospital side of it, we have a reasonably strong hospital portfolio.

We've taken a very tough look at those risks in terms of do we need market leaders, the top performers, a lot of the service coverage; other terms and conditions like mortgages that we have on the properties, et cetera, to protect our positions. So, to answer a short question, long well to answer while a) we expect to see defaults rise and we expect to see economic loss reasonably contained in terms of value, typically small economic losses on those.

(inaudible - multiple speakers)

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**Unidentified Audience Member**

A couple questions here. First one, Bob, I wonder if you could give us what is the risk premium, first part, of the unearned premium portfolio right now, related to the FSA acquisition? How can we think about that amortizing out over the next couple of years, the \$1.7 billion I guess that you had mentioned at the end of the first quarter?

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**Robert Mills - Assured Guaranty Ltd. - CFO**

Well, I mean what is it? It's actually looked at on a policy-by-policy basis. One of the difficulties in doing this type of accounting exercise is that we have to actually drill down by sector by exposure. So the amount of premium that we required in the calculation is vastly different depending upon whether it's a municipal exposure, a performing prime, first-lien exposure, which would certainly gather more premium charge than a municipal security but substantially less premium charge than one of the troubled Alt-A's which the number was very large.

There was a second part of that Frank?

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**Unidentified Audience Member**

I guess, how does it relate to the \$1.7 billion? It was \$1.7 billion back into first quarter, what would it be today, that aggregate number roughly? The discount.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

The vast majority of the purchase price discount went to dealer and premium reserve.

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**Sabra Purtil - Assured Guaranty Ltd. - Managing Director - IR**

There's a schedule, actually, in the 10Q that shows the adjustments that were made at the time that the gross increase in the UPR on the acquisition date was \$3.5 billion and that included \$1.8 billion of the loss and loss adjustment reserves that were carried over. So it was effectively \$1.7 billion.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

The best way to look at it is to look at an example. So say in the old days, FSA did a structured finance transaction that they got \$5 million in ultimate premiums. Based on current expectations of performance, they anticipate a \$15 million loss. Under the accounting rules you can only book the \$10 million. That portion that's over the ultimate premium, because you can't have a loss of less unless it exceeds ultimate premium, and therefore since you got \$5 million of premium, you only recognize the additional \$10 million.

We came in on the purchase accounting and say, Okay, wow, here's a deal that was priced at \$5 million, lost \$15 million, we've got an exposure of \$10 million, what do we want in terms of looking at that deal today?

Well, it's an '06 deal, reasonably seasoned, you've got pretty good certainty in terms of future performance. In our purchase accounting we're going to now allocate, of the discount, that \$1.7 billion, \$15 million to this specific deal.

So it had \$10 million of expected loss, we now calculate a \$15 million ultimate premium, new premium to the purchase accounting discount, so now once again, you go back to the accounting rules and say, wow, your ultimate premium exceeded your loss, there goes your loss reserve. So that disappears, but we know that there's a \$10 million ultimate embedded layer in the deal.

So now it's an '06 deal we think it's got three years remaining life, '10, '11, and '12 basically exhausted. So the \$15 million of premium comes in at \$5 million a year. Once we hit the first year we get to recognize \$5 million of non-premium, no loss. Why? Because it resulted the end of 2010, \$10 million of ultimate premium to get the \$10 million loss, but now the fun begins. So in 2011 when you recognize the next \$5 million of our premium, you got to recognize \$5 million of loss.

Right, because now you have to recognize the loss because it's equal to the ultimate premium and then in 2012, you get the last remaining bit of the \$5 million of earned premium off of the purchase discount against the \$5 million of expected losses.

That's why on Bob's premium runoff schedule you see expected losses and say, "Wait a minute, you guys are forecasting losses." No, it's the embedded losses on the revaluing and repurchasing of the old FSA portfolio under the purchase accounting where we're now able to allocate the discount to that specific deal, and then the premium emerges based on the runoff of that deal.

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**Unidentified Audience Member**

Okay.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

When you think about the bargain purchase in total, the purchase price is \$822 million against a balance sheet equity position of about \$2.4 billion at the time. There are a lot of pluses and minuses as the investment portfolio was above cost and revaluing the debt and going line-by-line. But a lot of that really netted down, and almost all of the net discount goes into unearned premium.

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**Unidentified Audience Member**

Right, that's effectively the negative goodwill \$1.7 billion.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Right, but in this case you get to recognize the negative in earnings.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

But there was, if you go into the third quarter, you can see -- actually when we got done with it, there was a recognition in the quarter of \$200 million worth of negative goodwill, but everything else, that allocated to the UPR of about \$1.8 billion.

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**Unidentified Audience Member**

Great and then just other quick question back to the capital raised. Can you talk to us a little bit about what the economic impact of the reinsurance would have been versus doing the additional \$200 million of equity, just kind of the terms of the reinsurance and how expensive it was going to be relative to the capital raised?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

The reinsurance, as you could well imagine, was reasonably expensive. We haven't really checked the portfolio to generate the earnings necessary to get the reinsurance capital to matter. So the equity raised, obviously is beneficial to earnings because you're building cash versus earnings going out the door, but you have the dilution of the stock.

Beyond that, and we had the reinsurance negotiated. It was up to us to trigger to make the transaction effective. We saw the opportunity to upside the equity; we took advantage of that relative to where we saw value today in the marketplace. And yet, as we look at the future, is there a role that reinsurance could play? And there probably is, but it would be more on an excess-of-loss basis as opposed to a portioned share of a specific portfolio, to minimize the dilution of earnings and you're not issuing any equities.

So if it provides us further comfort, relative to the protection of capital, shareholder base, and makes the rating agencies happy, there's an opportunistic time that we could execute a potential external reinsurance or an excess loss we would consider that. So it gave us flexibilities, I think is what I'm trying to say.

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**Unidentified Audience Member**

In terms of the two separate companies Assured Guaranty and Assured Guaranty Municipal, everything is presented here, obviously for a good reason, on a consolidated basis, but from a financial perspective is there going to be a true, sort of ring fencing and flow, and also separate capital? So that if one is buying a bond that is secured by a policy with Assured Guaranty Municipal, that you really do have a separate security and a separate credit versus the Assured Guaranty?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

That's exactly right, and that's exactly why we structured the company that way. And Sean, when he gives his presentation on the business model going forward, we show you what is the advantage of having an AGM or Assured Guaranty Municipal only. We think there is a segment of the market, based on what has happened in the past, to companies that had a diversified portfolio and what was the treatment of the municipal side versus the structured side that they're going to want to see a purely municipal platform.

Second thing is we look at potential competitors that we would have faced in the market say in 2010, 2011. Our expectation is they'll come out as a municipal-only insurance. We want make sure we have a very strong competitive argument with a stronger capital base, a lot more liquidity in the market relative to insured bonds, bigger claims paying resources, relationships, et cetera. So we'd have a very good competitive entry in the market as well.

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**Unidentified Audience Member**

So when you report on a quarterly basis, are we going to see those separate businesses and separate companies in effect?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

We're going to have disclose that because the segments are going to be combined, but we will talk about the two companies. Right now we are reintroducing AGM to the market because, obviously, under its current transaction contemplation going back say in the last year or so, they were not really trading on the market.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

The statutory financials for the individual companies will certainly always be available on a going-forward basis.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

It's our intention, as we have in the past, we've had a separate financial supplement for Assured Guaranty Corp., and FSA of course had a financial supplement for its subsidiary. We will be producing those, the late reporting we had for the 10Q as well as a few other things including Investor Day, put us a little behind schedule, but it's our intention that there'll be a third quarter AGM and AGC financial supplement out shortly, and that will include GAAP information as well as stats.

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**Unidentified Audience Member**

Thanks' a lot.

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**Unidentified Audience Member**

With regards to utilizing the reinsurance program, it seems to me that some of the inactive companies are low-hanging fruit. Can you define for us the extensive conversations you've had with regulators in the companies to the extent that you might take advantage of these opportunities, what the context is of these conversations, and when we can we expect an announcement to take advantage of these?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Geez, that's fairly far reaching. Our problem, not a problem, obviously there's an opportunity here. Our biggest area of concern, and as we've communicated to regulators first and foremost, is that the longer these portfolios stay in companies who are not trading them and have been significantly downgraded, you're hurting the quality of the product.

Now, how can you go out to the investors who are willing to buy insured securities, if the majority of their portfolios are not being protected at all? And therefore, we really go on to the state regulators and say, "It's in everyone's best interest, and especially if we look at your mission statement to protect policyholders that these portfolios start to be addressed.

And obviously, we've been pushing that going back a year-plus-ago, and we continue to make those. We think we're getting a better audience today because I think the certainty of, in terms of what are the future for some of these companies is more realized today than would have been 1 year, 1.5 years ago when there were some expectation of potentially being able to rise up out of this crisis.

So I think we're getting reception. We obviously continue to communicate directly with the companies. Some are more receptive and engage in a dialogue, others obviously don't quite view it in the same way we view it in terms of opportunities for the future. We think all of that kind of comes to a head. So, I think your statement of being low-hanging fruit is right. And you, again, just start at the bottom of a totem pole and work your way up in terms of who would we really expect to be the first available portfolio.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

But you do need regulatory support in order to get these done, it's not by other reasons.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

I just had another quick question.

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**Unidentified Audience Member**

What, I'm sorry, if I could follow up, and what is the status of those conversations?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Let them go.

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**Unidentified Audience Member**

And the timing of resolution?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

I cannot give you a timing. I mean obviously, this has been a strategic objective of ours, more in terms in defense of the industry than anything else. We've actually felt that it would make sense to put some of these portfolios up for auction because even if we don't get it, you're bringing new capital in and you put them in higher-rated hands. There's value once again to the policy and therefore the business model and we think that kind of support is important.

Let's talk about, we're very pleased with the current penetration levels we have. Obviously, the current volume of business we're doing, as I said, we're going to have the best year in public finance on the combined companies except for 2008 which is the aberrational year in the refinancing and the tender-options bond program that had to collapse and be restructured.

So they've taken that way, it's still a good year on a single-company basis. But really saying more for the industry and the industry's growth opportunity going forward, bringing new capital makes a lot of sense, gives us the opportunity to provide higher rating relative to these insured bonds, makes sense to support the product and the institutional investors that are kind of flat in that current scenario. So it's all positive whether it's us or somebody else. So we continue to make those arguments at all levels.

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**Unidentified Audience Member**

Okay, one more question and then I'll let you off the hook. What is the stumbling block here? Is it regulatory? Is it corporate? What is necessary to resolve this stumbling block?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

It's a bit of regulatory because obviously their concern is, am I treating all policyholders the same and fairly? And what do we remain for the company that gives up the portfolio. But morally, more or less it's the company itself in terms of their view of what their future opportunities are and how relative the portfolio is to them in terms of continuing that future opportunity.

For us this is just an acceleration of earnings when you think about. When you buy portfolio that's got an embedded earnings structure that goes out 30 years; what we're saying is here's cash today versus waiting 30 years out because potentially you need the cash today in order for you to survive. Therefore there's the opportunity but by giving it up it does say something to their future market opportunities and maybe some of them are not ready to communicate that at this point in time. Am I off the hook?

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**Unidentified Audience Member**

Yes.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Thanks.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

Just one quick question from the webcast, which is probably for Bob. How should we calculate capital adequacy to support the business on either a statutory surplus or GAAP-equity basis given the difference of purchase GAAP accounting, purchase accounting impact on GAAP?

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**Robert Mills - Assured Guaranty Ltd. - CFO**

Nothing is easy. I mean the rating agencies start with statutory capital. Right, so a lot of the benefits of the purchase accounting adjustments don't come through until they've accrued as statutory capital. So the real answer to that is, always start with stat capital when you're dealing with rating agencies and naturally when we're dealing with the regulators it's always stat capital. So a lot of those benefits of purchase accounting that you would think logically would immediately accrue to you, do not necessarily, in a rating agency model which begins with statutory capital.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Which is something we hope changes, because at the end of the day we raise capital on a GAAP basis our results are looked at on a GAAP basis, it's time we get into the 21st Century and look at the company on a GAAP basis.

Thank God the earnings emergence off of that discount emerges reasonably quickly so you - theoretically the difference between stat and GAAP is timing. Once you hit a matured state the numbers should be relatively the same. Because we've been growing rather quickly from IPO to today we haven't had the benefit of that steady state, gives stat the chance to catch-up to GAAP.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

The differences aren't forever but there's clearly timing differences.

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**Unidentified Audience Member**

I was just wondering if you could quantify of the \$275 million of loss in the third quarter, what was attributable to your change in severity?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

We had that number calculated, so the - out of the \$275 million losses, what was the severity component and - just by itself? Do you remember Russ? I'm guessing it was about - there was two components, right, severity and the extension of the curve. And I think the two of them combined, and don't quote me, but I think they were 160 in total, and basically 80-80, 80 was severity and 80 was the extension of the curve.

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**Unidentified Audience Member**

Okay so I guess my question following from that is barring another severity change or further serious collapse in the housing market, your loss numbers should be going down in subsequent quarters?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Now, if I said that he'd shoot me and you know, I'd probably run into SEC problems up and down the spectrum. Obviously, losses are the toughest thing for us to figure. We try to be as accurate as we can and as transparent as we can in terms of how we model the numbers to come to the result.

As I said, where we think experience will lie will depend on the two factors; contraction, warranties and whether the loan modification program has a stronger impact in terms of the performance of RMBS, where we actually see a final, a beginning of a significant build out of delinquencies.

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**Unidentified Audience Member**

Okay, but just to be fair here. If you hadn't made a severity change your loss finality would have been \$115 million in the quarter. So \$275 million minus \$160 million, so it's backing out the assumption changes?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Yes.

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**Unidentified Audience Member**

And just a second question is, it looks like you guys are forecasting \$8 billion in RMBS runoff, over the next five quarters. So just saying in that period you're going to release \$1.6 billion a quarter. What's the statutory benefit in that quarter, what's the statutory benefit from that runoff?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

You mean the capital charge?

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**Unidentified Audience Member**

Yes, capital charge.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

It depends on who's model you look at and all we can tell you is as we run off the model, and this was part of our argument with the rating agencies when they were saying, "We want to look at additional capital requirement." None of them really gave us a reasonable credit and that was hard for us to accept. Because if you're projecting my losses out 30 years, and I don't, say on the AGC portfolio, expect to pay any losses for the next three, why won't you at least give me run off for the next three?

And the run-off credit, in terms of capital credit, spec capital credits is in the \$1 billion to \$2 billion per year, depending on who's model you're looking at so it is significant in and of itself. Obviously, if they were to provide us any run-off credit we could have said the capital raise that was just recently executed would not have been necessary.

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**Unidentified Audience Member**

Okay. And just one final question, is who do you think about your cost of equity, is it on a reporter-book-value basis or is it on an adjusted-book-value basis because your issuing capital today and you note in the presentation that you may be repurchasing shares at a further date. I mean because your liabilities are so overstated how do you think about your cost of equity?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

We look at it on a book-value basis.

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**Unidentified Audience Member**

Which book value?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Real book, not adjusted book, current book value. That's how we evaluate the capital cost. And remember this deal was actually accretive to book, dilutive to EPS and therefore, okay how do you guys value the stock company, do you look at more of on a book-value-multiple or an earnings multiple.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

I just had one last question from the web and then I think we'll have time for one more question from the floor. Bob, this is for you again. Regarding FAS 163, are the markets in the FSA transaction subjected to valuation adjustments on a quarterly basis? The market valuation that we did at the time of the acquisition, and if there were adjustments would they go through the income statement or the equity account?

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**Robert Mills - Assured Guaranty Ltd. - CFO**

When you look at purchase accounting, every line on the balance sheet, everything off balance sheet, meaning the book of business, is all marked as of the date of the acquisition. Going forward the only thing that is mark-to-market are those assets and liabilities that are carried on the balance sheet on a market-value basis and those would go through the earnings process as per normal, such as the credit derivatives book.

The financial guaranty book of business is not adjusted to market on a going-forward basis, that's a one-and-done exercise.

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**Unidentified Audience Member**

I just have two questions, one, could you just talk about Moody's base case scenario of losses of \$600 million, if you think that's very probable and if you can quantify what they used in economic assumptions?

And the second is just on remediation efforts, if you can talk about the timing and recognition and if you agree with what MBIA has said, that 75% of their second-lien RMBS have had breaches?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

So the first question was relative to Moody's base case losses, well obviously we have an issue with all of Moody's assumptions be it base or stress. We obviously believe that the number that we have reflected in our financial statements is the base case, estimate of losses. Even our base case is a modeled outcome between four scenarios.

You kind of start off with an optimistic and work your way up to the pessimistic and then you weigh the four scenarios. So the base case is really a point estimate which is a modeled result coming out of the four scenarios that we look at in RMBS, taking assumptions from reasonable to stressed.

That number - the Moody's number really goes back I think to - was it June or March, Russ? June, so it doesn't reflect our most recent reserve additions as well as any portfolio runoff. So if you actually did a calculation at the same point in time I would think that we would be reasonably close on an expected case reserve methodology. And the second question?

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

The reps and warranties?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Well, we think we're building momentum in the reps and warranties side. I think the issue is now getting more national attention relative -- because it falls in the hands of a very few banks and banks are obviously subject to a lot of the treasury scrutiny. If there is going to be a significant demand in terms of their capital that has to be known and is it accounted for in their capital allowance test, is it accounted for in their capital needs going forward.

So I think it's getting the right amount of attention. The state insurance commissioners are looking at it, obviously, because it's impacting the companies that they regulate, not only in our industry but in the Life and the P&C industries that have these as investments in their portfolios.

We see momentum building up on our side as we continue to further dialogue as opposed to litigate and looking for a more streamlined process of put-backs. We're obviously getting a lot more access to files. So we think the momentum building for a good 2010. To the extent that that picks up, obviously we still have litigation as a further opportunity.

But the nice thing is, because there's two litigations outstanding today, and one is in discovery, and then you got the SEC charges, I think all of those that probably have a timeline to get to some level of hearing if not resolution in 2010, further benefits us.

We've always held the belief that one wins, we all win and each of us took different paths in terms of how we're getting there. So I think it's a reasonable expectation that you'll see better activity in 2010. So it will either help us mitigate any further deterioration or even start to recover (inaudible) losses.

If you talk about the MBIA assertions, I'd have to tell you we would agree, and matter of fact our numbers our higher in terms of the amount loans that we do on initial review that do not qualify for the securitization.

And it's not just us, it's not just MBIA. It's kind of endemic through these securities whether their insured or not insured. We've done samples of current borrowers that are actually paying. We've done samples of, obviously, borrowers that have already defaulted and therefore foreclosed. And the amount and percentage of loans that don't qualify are consistently the same throughout the analysis.

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**Robert Mills - Assured Guaranty Ltd. - CFO**

The financial statements reflect a conservative view towards recovery. In other words, everything that we believe qualifies is not booked up as a benefit in the financial statements. We've taken what we believe is clearly realizable benefit in a conservative manner.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

Great, well with that I think we'll take a break here so that everyone can stretch their legs and get something to drink. We'll reconvene at 10:30 with Sean McCarthy's presentation, and in the foyer you'll find beverages and coffee. Thank you.

(BREAK)

**P R E S E N T A T I O N**

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

And we're ready to start with the second part of our program of our program. As I mentioned, I would like to lead off with Sean McCarthy who is Chief Operating Officer of Assured Guaranty Ltd., and he's here to talk about the Financial Guaranty Direct business and the opportunities that we see for that business going forward. Sean?

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Thanks Sabra. Today I'd like to give you a little bit of a sense for our thinking on both the business that we're doing, how we're approaching the different markets that we're in, and what we think our strategic outlook is going forward in terms of how we're going to write the business.

First and foremost, since we've had the merger take place, the number one thing we had to do is make sure that we built the right team, and second, built the right corporate culture. So as part of that, the big focus has been to combine the best and brightest in each of the transaction groups that we work with.

The three primary groups are public finance, asset finance and international. Assured Guaranty going forward has two platforms that we're going to underwrite from is. That is Assured Guaranty Municipal Corp., and Assured Guaranty Corp. or AGC. Our AGM will be our muni-only platform. I'll talk about that a little bit later.

But really our goal is to take our largest claims paying ability and enable analysts, both on the fixed income and equity side, to look at AGM as our muni only execution. To be able to look at the asset-back business that is remaining in that portfolio and to know that we won't add to that, and therefore, can look at the runoff on that, and it's ultimate fewer claims status.

So, we've come a long way in putting these companies together. We've right sized all the deal groups now, so we feel that we've got the origination and underwriting capability that it's going to take to actively serve the three primary markets that I mentioned before.

Now in this period of time that it's been tremendously stressful with all of the other monoline companies that have suffered as result of their exposures primarily to CDOs and ABS, we have actually thrived. So if

you look at the comparison here in our business, the primary market that has stayed open is the public finance, the US market, and as Dominic had said before, we believe we're on track to having our second-best origination year in terms of PV premium that we've ever had.

As you can see from this particular slide, you can see that the shift in the business, we think, largely has been driven by the fact that throughout this stressful time, that the demand for our guaranty has remained steady. That's extremely encouraging. As was pointed out by both Bob and Dominic earlier, our real focus in the next 2010 and 2011 is to make sure that investors understand the value of our guaranty, and in process of doing that make sure the issuers that we're trying to serve maximize their value by having us underwrite the transactions.

So, we would expect that in 2010 that our presence in the municipal market will continue to strengthen. For us a 10% to 15% market share would be a complete victory, and we can achieve our economic goals by underwriting that level of business. We think it's going to take a little bit longer, and I'll talk about that in greater detail later, for the asset financing, international markets to come back.

Largely because the markets themselves are slowly coming, the asset-back businesses largely been picked up by conduits and by TALF, which I'll talk about in a second, but we think that new-issue is actually going to come back too.

Okay, public finance. You can see that this year is going to represent, actually, a very good year for us. Last year was the largest year by PV premium origination ever, and that largely was because of the shedding of tender-option program. So we had a really great opportunity to underwrite a greater amount of business in terms of PV premium and volume which really isolated it from other years. That being said, and being the only active guarantor in the market right now, we're on track to having a very attractive year this year.

A couple of interesting notes; the demand for our product in US public finances remained strong in that we've written about \$32.8 billion of new-issue par this year or about 9% of the total market. One of the things to look at though, is that our smaller, retail place transactions particularly depend on insurance. So if you look at our penetration in that sector for the first nine months it's about 20%, and 17% in third quarter alone.

So we think that that's a pretty important thing that the fact that despite all of the noise that's been there and credit watch, which has been a difficult thing for us to address and we have filed the catch down on that yesterday, we believe that we are in position that there is a demand pull for the product. Which I'll talk about how we're going to focus on that actually more specifically.

The market needs credit enhancement in order to create liquidity for smaller transactions and complex transactions. I'd argue that in the past the market was over penetrated, and we've been saying this really for years. So if you look at really where the municipal market penetration had been up to 50%, a large part of that was AA transactions, large transactions that didn't really need credit enhancement in their own right.

Why was it used? It was really used because it was so cheap. So if you look at the historic return in equity that people were actually getting, you can't blame the market for using the product to that extent, largely because it was really underpriced. But retail has been robust; one of the ways to look at this is that we are creating real-market access. One of the interesting things I've had to testify in Washington quite a bit in the last 18 months, and there's really been a complete turnaround about the value of our product there.

Whereas at the beginning, when we first had to testify with Barney Frank, it was actually quasi-unfriendly. My mother looked at it and she cried. She said, "Are you okay?" But the thing that's important about it, though, is that by the end of last Congressional term, Congressman Frank had proposed four pieces of legislation, one of them was to provide reinsurance for the industry.

So, the value of the guaranty, the demand pull for the product really still has been there and strong and existing, and even in Washington that has been recognized. So our retail presence is one of the things that we think is going to help us win a portion of larger transactions as well.

So that if you think about our strategic goals. One of them has been to really serve the market where we add most value, so lots and lots of small transactions, but also in doing partial transactions. One of the things we think that we don't really need to do in the future is really to dominate a large swag of the market in terms of getting 20% to 25% of the market. In fact, at the market share we've got right now and even a little bit more, we equal the best market share of any individual company that's been in the market historically.

So what's our goal? Our goal is to have conservative underwriting standards, conservative single-risk limits, and to add value where we think that the market has a demand pull for our products. So, one of the things that's interesting here and sort of a tipping point is you can see that AGC and AGM deals for year-to-date only 29% of the par and 3% of the transactions have par in excess of \$100 million.

That is an important fact because going forward, if you look at this transaction you can see that, there's been lots of talk about our small transactions, but you can see that we've done a significant number of transactions that are very large in size. We think going forward, if you look at this particular chart which is interesting. It's a comparison between 2006 and 2009 in terms of the size of transactions and where our penetration is. One of the things you see is that we will serve small market, which I said, and we get attractive terms, both in terms of price and covenants, but also you can see that the driver of \$100 million transactions are larger, they will make the difference in the product.

So if you think about the fact that job number one is to maintain the highest ratings available, and the fact that we'll stabilize these to a point now where we think that the negative outlook, which is more an economic statement, will enable us to be used on larger transactions. We're feeling fairly confident about our prospects going forward.

Build America Bonds, I think is an important thing to note. Build America Bonds are subsidy for municipal bonds where the government is picking up about 35% of the interest cost. It makes the transactions taxable which does two things. First, it has shrunk the amount of tax exempt securities that are in the market for investors to purchase, but it also has created an attractive taxable bond going forward that crossover buyers are buying.

We've credit enhanced a small segment of that, but we believe that's one of the things we're going to end up creating greater value is wrapping BABs themselves, which is a pretty good business in its own right.

But also it explains how there's been a demand for the tax-exempt bonds that have come to the market right now because if you think the overall volume this year would be about \$400 billion, a larger percent, in September and August that percentage of BABs was about 25% of the market issuance. So the tax-exempt universe didn't go as large as the tax-exempt issuers issued bonds, utilizing BABs. But we think again, this is something that offers us quite an opportunity.

So, I've alluded to the retail initiatives. If you think about our penetration, take the top ten dealers and look at the bottom half of the top ten, so the bottom five transaction dealers, they are mostly regional investment banks. We are doing a tremendous amount of business, about 23% of the bonds that the regional dealers are underwriting and why? Because they have extremely effective retail networks. One of our core strategic initiatives going forward is going to be to focus on how do we get our product more directly into the decision making hands of the retail buyer.

One of the initiatives we're doing, we own a piece of a platform, an electronic platform for municipal bonds called the MuniCenter. It's corporate sponsors are things like Merrill, and CitiBank, and I'd say about 80% of the municipal product gets listed on this platform. Our goal is to be able to electronically offer, in small blocks, the ability to credit enhance in the secondary-market basis, municipal securities.

Why is that important? It's a way for us to get to the point where somebody can click on something and look at it, see what the savings would be of credit enhancing a bond; a small block of bonds, which to date has not been available. There's been two prohibitions to it. One, just the sheer technology which we've addressed, and we think we're far along the ways of implementing. But the second is the fixed cost.

If you think about really, retail buyers or brokers sitting there to decide whether they're going to pick up a Dayton, Ohio bond and say, "How much would it cost to wrap that," if they can pass their mouse over the top of that and see what the costs would be, what the effective price would. Then they can make that decision right at that point.

That's the technological part, but the other part that we have to get in place is just the fixed costs. You have to immobilize a bond, you have to put in a particular security, and you've got to issue another on it; that part also resolves. We're starting with the MuniCenter because we think it's a logical place that cuts across a lot of platforms, but then our focus will be to try to focus on retail distribution at the big investment and banking houses and also ultimately try to get onto their electronic platforms as well.

International infrastructure; our international infrastructure market has been, for AGM, a strong business over a long period of time. Now this is really municipal finance primarily in Europe and some in Australia. It's the capital markets execution there much like it is in the US, favors the way these transactions get financed.

So letters of credit and bank syndications have been the way transactions got done before the capital markets opened. Letter of credit and bank syndications are the way the few transactions that are getting done now. You can see that it's dropped off quite dramatically. But what we think is going to happen is the capital markets execution is starting to come back.

Why is that the case? Two pretty obvious reasons. The first is that the depreciable life of these assets really is 30 to 40 years. And one of the lessons investors and insurers have learned through this recent crisis refinancing risk is not benign. You can't issue a 10 year bullet on a 30 year amortizing asset and hope that 10 years from now you're going to be treated kindly with a refi risk.

So we firmly believe that this market, and just recently as we've had the Moody's announcement, among other things, we believe that this is going to be a market that grows for us in a pretty substantial way. So as I said, we have a strong pipeline of business that we're looking at there. The issue that we're focused on most importantly is the fact that these transactions are typically structured in the BBB range where as many fixed income investors mandated this as an A investment or better.

So, what we're trying to do is redefine the underlying credit worthiness of these transactions so we get them into the high BBB, low A area where we think we add maximal value but get tight terms, and we think again that our skill set here is really going to be what drives it. And that's important because it cuts across both the international municipal market but also the US municipal market.

When you think about what's happening with troubled credit at the moment, we offer two things that are really important; we negotiate all the terms, if there's something that has to be amended you come to us. We spend a tremendous amount of time working with our issuers on a municipal front in order to make sure that the transactions underlying continues to perform well.

So that, I think in this time, investors are starting to value that additional security where if a credit experiences a downturn, we are guarantying timely payment of principal and interest when due. We're overseeing the covenants. We're married to each of these transactions in sort of the old-fashioned way, no prospect of divorce. To that end, that intrinsic value that we see investors both in Europe where we are in control and monitoring what are relatively complex transactions in the US, we think that's really one of the big value propositions that we're bringing to the table.

So you can see now in this chart that the most developed market in Europe for infrastructure is the UK. We again see significant progress here after the crisis. You have to remember why -- the crisis really hit hard in Europe for two reasons. First, the vast majority of capital market transactions that were underwritten were underwritten by credit enhancers that got downgraded. So if you're a fund and you held these bonds, you're upset. You're disappointed; you're sad and you want somebody to fix this. You're also not willing to buy the next transaction that comes up, and that's really where we come in.

So, we've got a couple of opportunities that are interesting. First, to step in the shoes of the other failed or dying monolines; now we don't want to do it in the way that others have done it, most notably, which is wrapping the wrapper. We want control rights. What we think is happening right now is that we are going to find ourselves in a position where we can go to seasoned high quality transactions, step into the shoes, help fix the market for transactions that are underperforming because the underlying transaction is regarded as stronger than the old wrapper who is dead or dying. So we see that as an opportunity.

We also see an increasing pent-up demand for capital markets executions for newer transactions that are coming. So in these circumstances we think that compared to what the bank alternative is going that we're going to offer a very attractive alternative.

Asia, there's two parts, and the way I would define Asia is Australia and Japan. In Australia the market has actually not had the same hiccups as the other global markets as Europe has had, as the US markets had. So as a result, we look at a variety of the infrastructure PVP projects there which have continued to perform well. The reputation for our product in the market continues to have a demand; we have several transactions that we're looking at in that market now which we would expect to close sometime next year.

So that's good and stable market. It's not a huge market, but between Australia and New Zealand it's a market that provides a very steady pipeline of transactions for us which we are able to wrap and add value.

The Japanese market, we are in a unique position there, and this is one of the things that we're evaluating this year. It's the second-largest capital market in the world. There is a move to a central government, to decentralize their credit role in local government finance. Old FSA spent five years getting a license there. We have the only domestic license to guaranty domestic fixed-income securities in the Japanese market. We think that's valuable, and we think that over the next course of the year we're going to put our efforts into working with municipalities and the governmental agencies that oversee the municipalities in terms of how our guaranty can add value to that particular market.

Structured finance; AGM, old FSA, withdrew from the market in August of 2008 largely as part of the former owner of FSA decision to really exit completely the asset finance market. AGCs continued to underwrite in that structured finance, and it's our view that it's important to have both parts of the market and have a larger footprint that we can participate in. It's our belief that the asset-back markets are going to come back, and that for us to be in a position to opportunistically add value with AGCs guaranty is going to be one of the important strategic alternatives for us going forward.

Just a brief note -- This slide is not in the right order. Regulatory initiative; Let me just see if I can skip --. Here we go. I'll go to this one first. What are we focused on for business? As I said before, we think that the markets are going to come back. Public issuance in these markets is as it moves away from TALF, as it moves away from -- kind of, try to roll there exposures, we believe we've got a pretty critical role in both Basel II restructurings. Restructuring transactions that fit our portfolios, but also really how consumer finance in the public secure ties markets is going to come back.

For us its auto loans and leases, credit cards, consumer loans, equipment loans and leases and trade receivables. You will note that mortgages are not on here. Why? We really think right now it's too soon for us to evaluate what we think mortgage performance it going to look like going forward so if we're trying to assess what are the underwriting standards for an appropriate residential mortgage back portfolio. How

were they serviced? Is there fraud involved in it? How can we know that the assets as they are working their way through are going to perform in a predictive way?

Bear in mind that in securitization, the technique has always been to look at the historical performance, stress that performance, put appropriate covenants on it and then attach at the level that you feel is appropriate. In this environment we're not convinced at the moment that that form of securitization analysis is going to work on mortgage portfolios in the near future. That's partially the reason why we are leaving that out.

On the other hand we do think that in the markets that we do want to participate, that higher attachment points and greater return on equity opportunities for us are really going to be there.

This chart sort of indicates just what I was saying before that if you look at the green line going up, it really is starting to indicate that there is an increased growth in the new issue market and so if we think about that fact that cash funded new issues markets starts to grow, that will be where our role starts to increase. I missed, I'll go back and do the CDS slide.

Dominic referred to this earlier. We've been very active in Washington in terms of a number of initiatives that are happening that could effect the industry. One of them is that NCOIL, which is the National Conference of Insurance Legislators, are proposing a variety of guidelines that will be adopted state by state to limit credit default swaps.

Now we think that that's fine and appropriate. Credit default swaps in certain forms have obviously damaged, in tremendous ways, a number of the other companies in the industry, but if we look at what we think our opportunity here is that, and I really haven't mentioned this before, is that AG Re, our third platform based in Bermuda, our reinsurance company, will be able to write credit default swaps, probably structured offshore. So this is one initiative here and we think it could create a pretty good opportunity for us in our offshore vehicle.

There are also initiatives in terms of OTC trying to focus on greater disclosure, greater transparency for credit default swaps, but also rating agency oversight, transparency in terms of how the methodologies are used, how writing assessments are done and all of that transparency and responsibility for how the process receives is something that we support.

We also support mandatory federal regulation of our industry. Why is that? Well, we think that each of the different, Dominic referred to this before, if you've got different states that regulate us individually and have different points of view, it's a complex industry, it's hard and it's not typical to, you know, life insurance or property and casualty, which is really what the insurance regulations were set up for.

Article 69 was put in place really with an eye to the fact that financial guaranty is not the same as these other forms of insurance. They separated out to that level, but still we think that if you're going to have the right level of -- if you recognize the fact that financial guaranty, as we write it, is not insurance and it's more like a financial product that would be originated out of a bank. We think that the fed, somebody who really has the capability of understanding of what we are doing would be the right person to oversee us.

It also would create a balance in terms of having somebody look at this who's got the manpower to look at it and establish a balance between ourselves and what our offensively in some ways, our regulators as well the rating agencies, which as Dominic pointed out before, in many circumstances have different opinions about different asset classes.

So if in one example you'd say we have excess capital to a AAA level with standard impose, and we have less capital in a AA scenario with one of the other rating agencies, rightly so you in the audience, equity investors for us would say it's dividend time. Where is our dividend?

In another case we'd be having to raise additional capital. Our number one goal, as Dominic had said earlier, is to make sure that our ratings right now are undoubted, so the capital raise, the initiatives that we've done, really all speak to that fact that we're trying to add maximum value to our product which is credit enhancing, fixed income, debt securities. Thank you.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

We'll take questions at the end of the session for this group of presenters and next I would like to present Howard Albert, Managing Director and Chief Risk Officer of Assured Guaranty Limited.

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**Howard Albert - Assured Guaranty Ltd. - Managing Director, Chief Risk Officer**

Thanks Sabra and good morning. I would like to recognize here in the audience today we've got all of our Chief Credit Officers, Steve Donnarumma, Frank Coughlin and David Penchoff and they do all of the work in the trenches, credit by credit, interacting with the underwriters on a daily basis. As you might imagine, they don't necessarily get a lot of love doing that and so if you see them at lunch, a kind word really goes a long way.

I thought I'd start with a little bit of recent history. As early as 2007, not everyone in our industry had really fully taken on the principles of enterprise risk management. There was still a lot of talk at our industry about zero loss underwriting, whatever that really is, and our success was measured often by our market share, or our return on equity no matter how we got there.

As you can see from words that Dominic said today and that Sean said, credit has always been a very high priority of ours, but I don't think that was always the case in our industry and in short, I think you could represent risk management with this graphic.

I don't think you should necessarily attribute any particular companies to any particular characters in this, but you could say that we were as happy as pigs in a benign credit environment with only seven players. So what happened? Well, there were seven companies competing and I think that put a lot of pressure on us, especially in public finance.

In structured finance we had the additional pressure that comes from the rating agencies, liberalizing their criteria and rating transactions very highly. That was a competitive factor and so I think conditions were right for this guy to come along, and if you can't read it, it says brick is overrated, let me show you something in sticks or straw.

We think we were the guy, who moved into the brick house, but it was imperfect and I think this is a good time to step back and recognize some of the things we did right and also recognize some of the things that we and our industry really need to improve.

Continuing with the brick theme, the first one I think, the first principal that I think has been really important in our own risk management has been that risk management starts at the top and that everyone in our company is a risk manager. This is a cultural point and I'll talk more about this in a minute.

The second is, don't bet the ranch and while this is obvious, a common sense principal, I'm not sure that everyone recognized that they were betting the ranch as they were doing it.

The third one, stick to what you know. Again, an extremely common sense principal but one that I think many people strayed from and the fourth, see it coming and do something. It's funny because I've read a million articles about no one saw the current economic situation coming and yet I just don't believe that.

I think in some ways we all saw it coming. I think we saw housing prices rising beyond anything that made sense. I think we saw credit terms deteriorating, we saw structures changing in a way that was unfavorable, and I don't think that we necessarily needed to be smarter than everyone else to pull back. I think what we needed was to be disciplined, or courageous enough to put the brakes on and not constantly rationalize our way to doing the next deal that comes down the road.

Going back to the first principal, risk management starts at the top. This is one where I think we've really done well and it has served us well and it sets us apart from other participants in our industry and maybe it's because we're smaller and maybe it's because our management team has a number of people who are industry outsiders who didn't start off in the monoline world.

Maybe we have the good fortune of having some really strong Board members like John Heimann who initiated our Risk Oversight Committee or Don Layton who chairs our Risk Oversight Committee, but the role of our Board, the breadth, the depth of the oversight, the degree of involvement of our management team, including, if not especially Dominic, I think really sets us apart.

Our management team is forced to know our portfolio, to know the risks within the company, to be prepared to report those in a very detailed fashion to the Risk Oversight Committee of our Board, and they drive themselves and they drive me and my team to constantly be better in terms of our looking for risk, being on top of it and making changes to policy as quickly as we see things unfolding.

Did we get it all right? Well, no we did not. With RMBS, for all we did right and we did a number of things right, as we saw things deteriorating, we moved our attachment points up pretty much to AAA across the board and that's something that happened at Assured and happened at FSA, AGM's predecessor as well. I'm not sure that we say every aspect of the fraud, capital F and small f that was involved in that market and I think while we raised our attachment points, maybe a better decision at some point would have been to make the decision that we ultimately made, which is to say we're done.

CSAs and ATEs, collateral support agreement and additional termination events or terms within master agreements of credit default swaps in which upon our down grade, we could either have to provide collateral or possibly terminate a credit default swap early and that is a risk associated with our own ratings that I think we underestimated and when we saw the volatility of ratings in our market, we had to do quite a bit of work to restructure those to avoid any risk of a downgrade causing a significant loss and we've done that, but I think we were late to the game in focusing on that likewise the volatility that we've seen in ratings and rating agency volatility.

We have to be aware that the rating agencies are constantly looking at everything we're doing and they can change. They can change their policies, they can change their criteria and we have to look at things like the capital impact of a change that the rating agencies might make and that might make us feel differently about sector aggregations or our participation in certain sectors at all.

That's something that we've focused on and in fact, when you look at our pooled corporate book, you saw that Dominic said we won't be doing pooled corporates, at least probably for the foreseeable future, maybe 2010. We did a great job of underwriting pooled corporates, the risk is quite manageable.

This issue is the amount of exposure that we have to a correlated risk is something that we'd like to see decline and should the rating agencies take a different view of that, that would have an impact and that's why we made the decision that we'd like to see that portfolio run off a bit before we participate again.

Where we can improve I think, is in making Enterprise Risk Management a broader responsibility throughout the company. That means all managers being aware of the risks within the areas that they control, knowing what their key risks are, measuring them, managing them and reporting them. An ongoing work in progress at the company is to revamp the key risk indicators that drive our enterprise risk management and make sure that we're covering absolutely everything across the company that could be a significant risk that could affect our future. Don't bet the ranch.

Once again I think we were well served by this principal. We had conservative single risk limits, which were consistently tighter than those that were imposed upon us by either the rating agencies or regulators.

We avoided high severity risks of all kinds, mezzanine, leverage-on-leverage, meaning CDOs of ABS and the like, where if things begin to deteriorate the relationship between your potential loss and the performance of the underlying assets is exponential and we looked through our own independent portfolio risk model for things like unrecognized correlations between areas and too high aggregations in certain sectors and managed that I think reasonably well.

If you look at the chart on the right, the blue represents CDOs of ABS and that's clearly an area where we know others made that mistake and we did not, but it's interesting also to look at the maroon. The maroon is CDOs of CMBS and as you can see, MBIA did \$42 billion of CDOs of CMBS, another area that has that embedded leverage-on-leverage.

When they got into that business, I think in early 2007, we were seeing those deals through our reinsure. They were presenting them to us for reinsurance and we did two because the underlying collateral was all AAA and it was relatively transparent and we took small bits, but then they started to move down the spectrum and we could see them doing CDOs of CMBS with ratings of A and we pulled back and did not do any more reinsurance of MBIA's, CMBS CDOs.

If you look at AMBAC, I think one of the areas where they took a bet that was beyond something that I think is prudent, is in the amount of servicer exposure that they had. The example I have here is Countrywide, \$16 billion I believe they had some significant aggregates at one time to other servicers beyond what I think is prudent.

FGIC bet the ranch not only in CDOs of ABS, but also in RMBS where 70% of their \$30 billion portfolio of RMBS in late 2007 attached A plus, BBB and SCA and CIFG had significantly more structured finance in CDO exposure I think than we would consider prudent for a diversified portfolio.

Once again, what can we learn? Well I don't think we quite bet the ranch in any of these areas, but I still think we did more RMBS than we should have, we certainly did more HELOCs than we should have. Why? We all know the reasons, they were prime, they had a long history that we could look too, we dealt with industry leaders in the issuers we were dealing with, all good reasons to do it not a good reason to do as much as we did.

That product changed over time and as we recognized that change once again we needed to pull back and in trust preferred securities, TruPS CDOs, once again I don't think we bet the ranch, but I think when you look at how much we did in REIT-TruPS, which I believe represents \$2.4 billion out of \$7.2 billion of TruPS CDOs that we did, there's a high correlation from one deal to the next, or one security to the next and that's a reason to be very careful about managing our aggregates.

Okay, stick to what you know. What do we do about it, forgot about that part. Well, as I think many people have talked about already today, we've raised our standards and we've reduced our scope. We're not doing any ABS that doesn't attach at least at A, and we're going after very narrow range of risks within the ABS world as Sean outlined for you a minute ago and even within healthcare and private higher ed, which are the enterprise risks within the public finance world, we've tightened our single risk limits. Those are some of the things that we've done and we're also looking very carefully at sector stress testing. What happens if a sector gets hit with some sort of exogenous stress?

In the area of stick to what you know, I think that these practices that I describe here are important, but frankly I think it's really the day to day screening process that goes on in the trenches that really makes the difference. If you look at this list of things that we've avoided, what can you say about them? Well first of all, I believe that everything on this list was done by somebody in our industry.

You can also say that everything on this list was presented to us as an opportunity and I think we did some small amounts in a couple of these areas, but for the most part we avoided these entirely. In most cases, if you look at this list, there is a vetting memo, a screening memo that was produced in our company that we discussed we made a very conscious decision not to do it.

In some cases I made trips, I visited with Capcos, which I don't care to explain now, but I will explain it at lunch, I visited Spain for Spanish mortgages, I visited Mexico to talk about construction loans and in all cases came back from those meetings saying, these are things that I think we don't understand well enough to participate in.

This is just an example I think of what is a fairly robust process in our company and several of these screenings went up to our senior management. Dominic was involved in discussions on several of these risks and we, I think have done good job of staying very narrowly focused.

Where did we make some mistakes? Where did we go over the boundaries? I think in life insurance securitizations we went over the boundaries because maybe it was a little more complex than we realized. While there is mortality risk in those deals that turned out to perform perfectly well, the mistake we made in XXX securitizations was handing the pen to an external investment manager, within some criteria, for the investment of the assets in these insurance securitizations and at least in two cases, the investment manager frankly strayed from what their mandate was and invested in risky securities. That's a lesson learned.

In the financial products business, the GIC business that FSA had, the issue was not the credit quality and the ability to analyze the investments, they were eminently qualified and applied the same discipline credit criteria to the investments that they would have applied to anything they would ensure the issue was liquidity risk. Liquidity risk is not something we are equipped to deal with, it is not something that falls in the realm of stick to what we know.

What can we do better? Well, once again we're sticking to a very narrow scope in the ABS world. Consumer assets, equipment transportation, as Sean said, we're sticking to a very narrow geographic scope. You heard his definition of Asia a second ago.

Anything that we do beyond that will get attention at our Portfolio Risk Management Committee, a committee of our top managers and I can tell you that the bias right now is to stay very narrow. At some point, maybe we'll be prepared to expand, but no time soon and as you know once again, and I think Dominic covered this well, the financial products business has been completely left with Dexia and we are not at risk.

See it coming and do something. This is an interesting one because I think that what happens when you're in the business for a long time, is that when a new risk comes along we analyze the heck out of it. We have due diligence meetings, we meet with outside experts, we visit several issuers, we talk to the bankers, we meet with the lawyers we make sure every legal risk is covered we cover it to death.

The first credit committee takes hours and hours and hours and then what happens? We all get comfortable, we all begin to believe in our own process and our own criteria and the next thing you know it's like deal number 472 comes up and we stop spending our time looking at how this risk really exists within the current credit environment and instead, we end up spending most of our time talking about this, the proverbial angels dancing on the head of a pin. Those are good looking angels aren't they? I don't know where those angles came from but you can fit a lot of them as it turns out on the head of a pin.

We missed the forest and it's important for us to recognize that everybody in our industry does that. You're focused on the next transaction that comes in and you've got to have a process that causes you to step back and think about what you're doing as things are changing.

We talked about how we did a pretty good job in RMBS at least of moving market if not getting out entirely. Another area where I think we did a very good job was in CMBS. If you look at the chart on the right, you'll see the blue bars represent the par amount of CMBS that we did over time and the red line that you see is Cap rates and as Cap rates were coming down, i.e., CMBS deals were getting riskier effectively or prices were going up. We pulled back and eventually we pulled out.

You see that one little sort of blip in September '07, but actually that is mostly a small business loan transaction, a bank balance sheet deal for one bank that really was not a CMBS deal by sort of traditional definitions but that we categorized within our CMBS portfolio.

What we get right is I think we stop, we have a very good screening process and our credit staff, the likes of Steve Donnarumma and the team, are actively out of the office meeting with issuers and staying on top of issues and our Credit Committee has no business, people with a business objective on, it consists of people who are independent and are there to make a good credit decision.

Lessons learned, look at what's at the top of the list. Also I think we learned a lot in the whole auction rate security and variable rate demand obligation debacle in that we realized that we were allowing municipalities to take risk of accelerated repayment of their debt and potential increases in their interest costs and that's something that we're now very sensitive too.

What are we doing? Well, one of the things that we're doing is we actively conducting and merging risk sessions in which we get our credit surveillance and underwriting people together without a deal in front of them to talk about what's going on in their market and how we need to change our approach on our criteria.

This past quarter we held five of them. They were in healthcare, general governments, banks, commercial property, and I am short one. It will come to me in a second. We held five of them and out of that emerged some changes in the way we look at some things. In fact, it was fascinating to see when we got everybody in the room, how different people's opinions were about some of the risks that we were taking and it really informed our approach going forward.

Likewise, we have adjusted our approach to accelerated repayment, interest rate risk, market access risk, even if that market access is dependent on us. That was a big area where I think people took risk in public finance that we now are assiduously avoiding and tried to drive terms in the other direction.

In the hospital area and other enterprise risks within public finance, we've seen their investment portfolios decline in value and we do a lot more analysis on the potential volatility of their investments and in general, going into a period where we expect reduced revenues for all sorts of public finance issuers in the world of anyone with a passive revenue stream of any kind, we're spending a lot of time focusing on their adequacy of reserves to get through a period of time where they are going to have reduced revenues.

In structured finance I think we've told you know a couple of times, nothing below A, a real focus on aggregate exposure and that's the reason why we're pulling back on pulled corporates. We look at vintage, we look at correlated exposures and the other thing is, as we do deals in this area we have to do a better job of due diligence. Every deal has got to have sufficient file reviews, date of integrity audits, management background checks, not to mention look how important reps and warranties turned out to be.

We have to spend a lot of time making sure that we have adequate reps and warranties. That we have adequate reporting requirements so we know what's going on with our transactions and that we're dealing with seller/servicers who are of a sufficient credit quality to be able to make good on those reps and warranties for frankly, a longer period of time than we ever anticipated we might need to rely on those.

This is what the future house we hope looks like for us and for our industry. We know that at some point there will be competition we hope and there will be temptation and we need to stick to the discipline that got us here. Thanks. Russ.

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

Thanks Howard. I wanted to introduce a couple of people in the surveillance group that play a fundamental role for us. We have Rick Bauerfeld over here and we have Andrew Pickering in the front row. They run ABS surveillance and muni infrastructures surveillance respectively which are very, very large jobs for us in keeping track of our portfolio.

When we were getting ready to merge the two companies I sat down with Dominic for half an hour and he said, well this is good, we're glad we're getting together and I would like you to just do two things. Okay, two I can do. He said I want you to fix that mortgage thing, that mortgage problem and I want you to deal with the rating agency thing. Fix both of those and we're good.

Okay, well thank you very much Dominic. I'm thrilled with that and I don't know when I'm coming to the office I should be in the frying pan or I should be in the fire, not exactly sure which one I want, but I find if I go quickly enough between the two there's just enough of a breeze so I don't actually ignite. It hasn't happened yet and I'm trying to keep it that way.

Moving on to the role of surveillance, I think Howard indicated how important good underwriting is to good surveillance, nothing like a properly underwritten deal to make our lives easy. The same is true though I think surveillance is a vital part to making even well underwritten deals perform well and that's what we're here to do.

I think that really sets us apart from a passive investment portfolio that some fixed income investors might own in that here we have a very large dedicated surveillance effort that really makes a difference in the way our transactions will perform and the losses that we are likely to take relative to a passively managed portfolio.

Following on Howard's themes, I've done -- in that we've been together for five months and we're really trying to just establish the building blocks if you will of our surveillance effort. You know, I think there are really a few things we do. We analyze our portfolio, we act when necessary and we communicate. Those are the three big things we're trying to do and how do we do that? We monitor our existing transactions we have two portfolios that are brought together in both municipals in an asset back.

We've combined the surveillance staffs and we are now managing this as one single portfolio. We respond to amendments, we are getting a lot of that and I'll go into this some. I think it is important when we're underwriting transactions, as Howard said, you've got make sure you have all the provisions you want in at the beginning with that control, with the rights we get as an insurer, as a lead investor if you will, comes the responsibility to act frequently and quickly to a lot of requests that come in and that's something that we handle in surveillance.

We've got to be ready to act so we're taking proactive steps to either improve transactions or to respond through and to mitigate losses which I'll get into in a bit and finally we report both to our Board and ultimately to the public and to you as investors in our securities, how our portfolio is doing. So again, we analyze, we act and we communicate and that's what we're trying to do here.

I'll point out a couple of things. I think of us organizationally as having three components. If you look on the right of this chart, we have their surveillance of municipal transactions handled with one staff. We have asset back with another staff, and then we have a dedicated loss mitigation, or work out staff which is largely independent from the ongoing surveillance of the portfolio.

It's very much a team effort between both our underwriting areas, each of our surveillance areas and our legal department and senior management in really devising strategies and managing the portfolio as we go ahead. It's the largest department in the company. We have 70 professionals in it today. We've lost virtually no one in the merger. It was never an area where we were going to be able to save costs in the surveillance of the portfolio. It's a big portfolio, there's a lot of work to be done and that's been the position of senior management since long before we were merged. Keep everything as it is and manage the portfolio as best you can.

We've brought a lot of different talents into the group. We've got 16 people that were in the underwriting area previously. We have a dedicated legal staff, we have staff in several of our offices around the world, in London and in Sydney in particular where there is active surveillance requirement and it's a big, big effort.

I think the big challenge that we had in putting the staff together is really we need to focus our attention where it's needed and devote the resources that we have to areas where we can add the most value and I think how we do that is by looking at the different sectors. We try to look at sectors. We try to look at our internal ratings of risks and the size of exposures and by looking at those we try to prioritize the work that we have to complete in surveillance.

We have an annual surveillance plan for both asset backed and municipal risks as you might imagine, and we have a separate work out plan that's really kind of more transaction by transaction, but in the surveillance plans we are looking at again sectors, ratings and trying to devote resources where they can be used most effectively.

An important feedback loop that we have, and this is something that Howard and I worked personally on quite a bit, is our Risk Management Committee. Here it's always been an important part of both of our companies are very similar culturally, historically and it's always been a big part of both companies is to have what's going on in surveillance be communicated to the underwriting staff because you can get a large book and you've got people that are underwriting new deals and they're not really focused on the deals that closed three years ago and what lessons are to be learned there.

We handle that through a Risk Management Committee process where the surveillance departments are typically presenting transaction sectors or their reviews of certain risks and the senior underwriting officers are there and the underwriting staff is there and it's a good place for us to get dialogue and to see what really goes on when you close a deal and what's really important to keeping it on track throughout its life.

One of the biggest components of figuring out where we're going to put resources on our internal credit rating, Sabra mentioned that earlier. When you're looking at a lot of our credit rating summary detail you're going to see our internal ratings and we try to have a culture of independent ratings in the surveillance area and make it similar, and we're talking in a similar language as the rating agency ratings as Sabra mentioned, and it's important that this is a bottom up approach.

Every analyst has their risks that they're responsible for and every quarter they're going over with their manager, where do they think the risks are. This is particularly true in structured financings where there is a lot of activity and do we have the right ratings assigned and if they think it maybe a rating change is necessary that then percolates up through the management of the surveillance group and eventually to the Risk Management Committee to be considered and that's very much the culture of the surveillance area is be straight forward about we think the ratings are and try to communicate as clearly as we can.

We do keep three different surveillance categories for both investment grade and non-investment grade risk in addition to just the straight rating agency type ratings. We also prioritize risks within investment graded, non-investment grade exposures the way again is another filter for us to make sure that we're putting our resources where they are most needed.

For instance in the investment grade category we have three subcategories and in the third one, where things are investment grade, but still need more surveillance activity, we're constantly evaluating, particularly that little portion of the portfolio to make sure that those risks haven't fallen to below investment grade which would then require yet more surveillance activity.

Amendments, waivers and consents, are frequent qualities of our transactions. We have more covenants than are typically found in uninsured transactions, very true in municipals. Also true in structure financing where we are a direct participant in a deal. You'll find more covenants, you'll find more violation of covenants and that's just a part of doing business and we prefer that.

It's an advantage that we have that we get certain control rights eventually as covenants are breached and we're in the surveillance area, constantly dealing with those, most of which are immaterial and don't require a great amount of effort and don't represent any particular risk but give us certain ability to exert control over time and that's something that we encourage certainly from an underwriting point of view is to get as many covenants as we can and we'll deal with having to handle amendments or consents.

I think a couple of quick examples, things like a GIC provider. Well, frequently the GIC provider has not only have a certain rating but has to be acceptable to us so we can control aggregations of risk across our portfolio. Not a big thing, we don't have a lot of concentrations but it's something that we try -- it's a right that we frequently have.

Another one that I just happen to mention here is where a municipal issuer may have swaps outstanding. Even if they're going to refund the bonds the insured bonds we may allow them to keep the insured swap outstanding to hedge other floating rate exposures that they might have. It's just a reasonable way to deal with your clients over time and as you develop a certain level of trust, you get a greater number of rights in the portfolio and that's a good thing for us. We're trying to always kind of manage credit quality and improve it where we can in the portfolio but be reasonable in terms of exercising our controls.

Early action. We're kind of going through an escalation of things in these slides as to what we do. Very frequently you'll find, particularly in structure financings, a lot of errors. I mean, trustees don't always understand exactly how the deals work, issuers don't always have an incentive to interpret the documents to what is ultimately to their detriment in the way certain calculations are performed and it's very important that our surveillance team understands exactly how we think the documents work and we've prepared to challenge any misinterpretation of documents or any errors, and again these are somewhat frequent and we find these and we correct them and it's usually not that controversial but it just takes a lot of blocking and tackling type work.

You've got to make sure you know every covenant and exactly how it's going to be interpreted. If the other side doesn't agree, we have to go through a process of coming to an agreement. The most obvious one here is the transfer of servicing. We frequently have the ability to move servicing and if you're an investor in a security it may not be a great thing if you've got a 10% interest in a security and you're trying to move servicing and the other guys don't want to move it or you can't figure out who they are and it's hard to do. We're typically the controlling party: we can move servicing relatively quickly. We've done it a lot of times, move servicing into better hands and that makes a big difference in the way our portfolios perform.

Loss mitigation with work out activity, here our goal is -- this is kind of the end of the road, this is where we're trying to minimize losses and this is a big part and I won't dwell on this too much as Dominic did cover it in his remarks but I'll go into some loss mitigation techniques.

We've done a few things over the years. We've done refinancing of transactions that have been into default. Sometimes we can refinance them at a more efficient interest rate, which has saved considerable money over the years in both Assured and at the old FSA which was a technique that we both used to dispose of collateral.

Another thing we can do in an orderly fashion when we're the single controlling party, much more orderly than if you're a bunch of desperate bond holders trying to figure out what to do with your collateral.

Today, the big focus that we have in loss mitigation is of course residential mortgages. As Dominic mentioned we have received 36,000 loans so far from mortgage backed securities that we've insured between the two companies. This is a big project, 36,000 is by no means the end of it. That's what we've received so far and what we're trying to do is determine how many of those loans were ineligible to be part of the securitizations where they were included.

To date we've reviewed 21,000 of those loans. I think I might turn to the next slide here and just give you an idea for the process. This is something that's unimaginable for a regular investor to do or even a trustee. You'd have to be a very, very assertive trustee and we just have not seen this kind of activity to date.

What we do is go through a long process of obtaining files, the actual loan files and the actual underwriting guidelines that were applied to them from the originating companies, we take all of those files, gather them, send them off to one of a number of diligence firms that we call loan file diligence firms. In the old days we'd use these firms to underwrite new transactions, now we're using them to do a forensic re-underwriting of portfolios that we have.

Those firms then determine what percent of those loans didn't meet the underwriting criteria that were supposed to be applied at the time. They send that information back to us, we review all of their work, prepare what we call a demand letter, which usually involves a very substantial portion of the loans being ineligible and we demand repurchase of those loans from the originator.

The originator then has a period of time to review that demand. They consider it, they will buy a certain number of loans back upon that, just written demand and that number varies from originator to originator, but it's usually not a very material percentage of the loans and then we go through what we call a rebuttal process which is the loan by loan review, sometimes in person sometimes or over the phone with senior underwriting people on the part of the client and our senior work out people and our diligence firm. That is a process that can take six or nine months from the day you've first identified a loan as one you want to review to one that actually bought back by the client.

It's an effort that is well worth it if we go to the prior slide you can see to date we've had \$146 million worth of loans repurchased in this way and we have a little over \$1 billion of total recoveries expected from this process remaining today and this is a big, big effort for us. We have our most senior work out people doing this from work out people from both companies and it is a 24/7 job that is taking a very material amount resource and is well worth the effort.

I think in closing I would just say that surveillance is a big part of what we do. We spend a lot of money in surveillance. We have a lot of people doing it and I think our goal is to significantly outperform a passive portfolio as I mentioned. We have the capacity to manage a large portfolio, we have the expertise between the legal and the underwriting and the surveillance people that we have that are extremely experienced. We have the legal right which an individual investor typically would not have and we have the motivation. We have the controlling piece of significant transactions and we are going to pursue every available remedy, and that's going to make a difference for our book. Okay. Thanks.

## **QUESTION AND ANSWER**

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

Thank you. We've allowed about 30 minutes for questions and answers most principally on this section of the presentation so Bob if you'd like to join us up on the stage as well in case we have any questions on the financials and Dominic do you want to?

While you guys are getting the mikes, there was one question that came in late from the website relative to the previous session and the question was basically, what financial metrics should investors look at to have a sense of what our excess capital position is and what that would mean for our decisions regarding share of purchase dividends or portfolio opportunities.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

That's a good question. The first thing that is the easiest one would look at par against capital and then if I've broken that down finer I'd look at the structured portion against capital and how that changed over time because obviously the structure run-off would probably be the most significant indicator in terms of capital excess or capital redundancy. I would look at lost development in the P&L line in terms of does that go above the standard measure as a further indication as to whether further capital could theoretically be required from a writing agency review of adequacy. I would look both leverage and the P&L line for losses.

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**Unidentified Audience Member**

Hi, this is for Russ on the loss mitigation. You had the slide that kind of walked through the loan files, the outsourced -- the last bullet says there is a rebuttal process. I guess the question is what's the bullet after the rebuttal process? Is it arbitration generally? Is court the next step? It's page eight if you're looking.

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

Yes. At the moment may -- it's an option that we have; what to pursue if we find that the rebuttal process is unsatisfactory. I think our hope is that for the bulk of the accounts that we have they recognize what our rights are, they recognize the work that we do as we go through each file, they recognize that in the vast majority of cases they are going to agree with us ultimately and so as long as we're getting sufficient cooperation I think we're inclined to continue to pursue that. If it turns out that they are not cooperating or that they can't recognize the rights that we have then I think we have, other options. It can go arbitration or litigation, either one.

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**Unidentified Audience Member**

Do you have a problem even just getting the files in the first place?

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

Sometimes it varies, but we've obviously gotten 36,000 files, that's a lot of files to get. It varies a little bit how the transaction was originated as to how quickly and how easily we can get the files. We think we're going to ultimately get them in most transactions, but particularly where it's most obvious we were the primary financial guarantor and they have direct agreements with us. Pretty obvious we're going to get the files.

They might fight us for a while, but we're going to get them. In other cases where we're dealing only in the secondary market we may have to operate through the trustee or someone else and we've been working

hard to do that. Again, we're a motivated party and it's taking longer but we expect to ultimately be successful in many of those cases.

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**Unidentified Audience Member**

Some of your, I wouldn't say competitors, but some of the other participants in this industry I don't think are having quite the same level of luck even getting the files that you guys are. Other states proclaim that they're not and I had one question for Sean. You talked about federal oversight being easier and better than state oversight which I certainly understand but I would also think that as almost the lone competitor any more in your industry that you'd want to keep the barrier to entry as high as possible and having it state by state has got to keep those barriers to entry nice and high.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Well you know that's true I think in one aspect. On the other hand they aren't a lot of one company industries. We fully expect that, two things, one, if state regulators and Dominic and I have met with a lot investors and really tried to encourage them to speak to the state regulators both in New York and Wisconsin and others, to try to discourage the municipal portfolios and put them up for sale.

It's our view that that would attract other capital to the market and we think there is plenty of room for more credit providers so to the extent that there was a federal regulator we think that creates the balance I described before, but we also think that new entrants, validate the product and we think there is demand for it.

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**Unidentified Audience Member**

My question is of the 21,000 loans that you reviewed out of the 36,000 loans are those a random sample or are those loans that you believe have a higher propensity of fraud contained within them?

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

It varies a little bit by the product type. In the case of second lien loans the vast majority of them would be loans that have already been charged off in which case they are defaulted loans, but we have as Dominic mentioned before, also done random samples of HELOC transactions and some HELOC transactions of loans that are not defaulted to see if they are having the same type of misrepresentation and I found generally that that is the case.

While the defaulted loans certainly have a high percentage, even the non-defaulted loans do as well. In first mortgages it's not just charged off loans it's a much broader group of both delinquent and charged off loans in first mortgage transactions.

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**Unidentified Audience Member**

Okay, and for the \$1 billion in recoveries that you guys have booked is that inclusive of the 36,000 loans that are up for review or is that just including the 21,000 that you have reviewed?

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

It's the 36,000 loans. It's everything we've reviewed plus a forecast of what we expect to review.

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**Unidentified Audience Member**

Okay and just a final question. Do you expect to continue to do this on a file by file basis or at some point do you think they'll be a global settlement?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Obviously it would be our hope that we'd get to a global settlement. The file by file is time consuming, it's expensive. We still see a tremendous value in it and as the other question eluded to, what's the next step after rebuttal? Well, we can fill in the blanks for you but obviously litigation is one of those next steps.

We've offered arbitration in one of the cases as a way to expedite the process or go to a dedicated panel of both companies combined that would have a commitment to get through files. So we're very strong in our belief in terms of the lack of proper underwriting for a large segment of these loans.

One time we got questioned from one of the counterparts, why are you guys looking at loans that are \$40,000, I said multiply it by 25 it's \$1 million and if I can get that recovery every two weeks, if that's the kind of timeframe it takes doing file by file I don't know anybody in the company that's making \$0.5 million a week so we're more than happy to spend the time.

They weren't quite as happy to spend the time as we were but it's still valuable and I think we also set a great precedence through the work Russ and his team are doing. That if you really do want to litigate against us we have one hell of a series of documentations in terms of our process, our offering of their participation in our process, our offering of arbitration, the results that we've achieved on the actual closed files where we both said okay, after a sit down what is the percentage of files we got reimbursed and it's around the 80% range. I don't think we're somebody you want to litigate against because I think that track record in terms of the discipline approach and results would play fairly well in that environment.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

And bear in mind the kind of price that we're talking about, the big financial institutions. The originators of mortgage products that were small and went under. Those aren't the people we're pursuing. We may file some claim in bankruptcy, but the vast majority of what we've got on our books that Russ's group is working through are people who've got the money to pay us back.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Russ would love us to get to a negotiated settlement so he can take some of his people to other tasks, but that doesn't seem to play right now.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

I had a question here from the website when we poll the room as well. Can you compare for us your estimated losses for your RMBS book versus the results of the rating agencies and explain what are some of the differences between where our numbers come from and where the rating agencies numbers come from.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Do you want me to take that?

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

Yes.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

The principal reason is two, right, it's the two big factors, severity and default probability. Default probability in our stress models, we go up to approximately 40% to 60% depending on the deal of default probability. The rating agency model, in terms of stress case, one of them uses 80% default. The other one uses 90%.

Obviously you can figure out who we left out of the analysis there. And we try to build it up economically in terms of what do we see as unemployment. The three factors that contribute to mortgage defaults are unemployment, housing values and interest rates. So interest rates have been very benign so it's really housing values and unemployment.

And there are a lot of data points available if you go back over time, even if you use Detroit today. I think the unemployment rate is 29%. For the city itself it's 50%. Housing value declines are in that 50% range, so you can look at the default rate there and that's a good data point if you really want to look at a stressed environment.

And we try to then say, okay, what is the true emerging default rate that we see in the market and then try to compare it to what our -- remember, we do four cases optimistic to the pessimistic. And that's where the range of default probabilities fall. And that's our basis where in their stress models it's 80% or it's a multiple -- or at 90% or it's a multiple of today's experience. And, once again, you're already in a very heavily stressed environment. To take a multiple of this makes absolutely no sense and it's not justifiable.

And the second one is severity. We've ratcheted up our severity as we've seen information coming through the trustee reports and obviously looking at housing value declines. And in the current quarter we went up to 60% and 65% depending on the structure or the deal as to severity. They would take severity between 70% and 80%. So those two big factors account for the whole difference between our view of stress and how we model it with our probabilistic outcomes and what the rating agencies have.

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**Unidentified Audience Member**

Dominic, two questions here for you. First one, you talked a lot about increased risk management, increased surveillance. The question I have is can you actually get that in pricing and what impact does that have on the returns on allocated capital on the business that you're writing today?

And the follow-up to that would be you also talked a lot of it today about increasing surveillance, et cetera, but yet you've cut a substantial amount of head count. Where is that head count reduction coming from and is there risk there that you're making too many cuts given the increased surveillance?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Okay, well, the first one, pricing is interesting. We do a return model on every deal that we write. So, first and foremost, there isn't enough price to overcome a bad risk. In our business you still get paid in basis

points, not in rates online. So there is never going to be enough value in either the business, A, the transaction level of the business segment to ever absorb a loss.

So the whole idea here is you underwrite to a zero loss expectation, although that always sounds nice and everybody says that it obviously hasn't happened. But at least based on the way we structure our deals we tend to contain the level of loss. As Howard said, there has been a lot of lessons learned and we avoided leverage on leverage. I think that would put outside losses and every loss that we've had we've been able to absorb through normal operating earnings.

We've reported operating earnings every quarter throughout this entire economic crisis. So I think that's a testament to the underwriting and the structure. So there is no price that gets you any sort of recovery or chance of recovery. But we do focus on price because of return implications. If we're going to put capital to use we want to make sure we're getting paid for the capital that we're committing.

So every deal goes through a return model. Dennis Kim who is the Treasurer and is basically is the holder of that model and, therefore, it has to meet his criteria. If we're going to do a deal we now bring pricing as a discussion point in the credit committee as well.

In terms of headcount, as Russ said, we've not touched a hair on the head of anybody in the surveillance and we've added significantly to credit. Howard didn't talk about his resources, but he has more resources today than the company prior. Remember, we're underwriting less deals today than we would have, say back in 2006 for the sake of argument.

So in the two cases where we really believe this is where the rubber meets the road, we've added to staff or at least maintained the current level, took no integration savings or benefit although we've combined everything. You can add a theory that says there should be saving. Where savings were achieved is in the support services, so like technology of the combined companies. They have one single structure that you're running all your programming through. You don't need the two individual parts.

All the senior positions, CFOs you need one, CEOs, thank God, you need one. Even heads of the business units -- so those things were paired down. Obviously out expectation of where we see international and structure for the next, say, 18 to 24 months dictated some integration saving opportunity. All the administrative staff were reduced significantly. Obviously we got out of the financial products business. That had a big impact on staffing.

So the staffing was in the areas where we thought we had the opportunity to get integration savings. But we really actually focused on more resources and more investment in both surveillance and in underwriting. And the surveillance usually benefited. But in the current quarter we brought everybody on the same platform in terms of technology. And FSA had better automated systems in surveillance than Assured did. So there theoretically would have been a savings there in terms of integration, yet we still kept the head count the same and have added to the work effort.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

And our pricing opportunity is good. I mean, it goes without saying that in this environment us being the dominant/only player in the market we've got good pricing power. And as we see the other markets normalize and great cash funded transactions coming into the asset factor, in the national markets we'd expect that pricing would still be attractive and our production will increase.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

There was a slide on one of the presentation, I forget whose, that showed prior year and the current year and it showed premium against par. And if you did the quick mathematics you'd see that you're getting a lot more premium for par in the current year.

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**Unidentified Audience Member**

Yes, I just have a question, Russ, for you with respect to what is your surveillance remediation costs running per quarter for the company and how has the company -- where do those expenses show up? And I guess a follow on is I didn't think the company had booked \$1 billion receivable at all. What is the company book so far with respect to anticipated recoveries of remediation?

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

I couldn't tell you exactly the expense. I'd say it's probably \$1.5 million a quarter, something like that would be the total expense of all our diligence, maybe \$1 million. I'm not positive. But it's a number like that. And that's for the diligence firms and legal reviews and that kind of thing. It depends on how many loans we have under review at any point in time.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

I think in the quarter we disclosed that loss adjustment expenses were \$1.6 million. That's not our own personnel. That would just be the external costs.

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**Russ Brewer - Assured Guaranty Ltd. - Chief Surveillance Officer**

And what was your other question?

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**Unidentified Audience Member**

Receivables.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

The receivable is hard to find because you only have a receivable to the extent that your paid losses are greater than your current level estimate reserve. If your paid losses are below your reserve level you don't have a receivable because you're still within the reserve containment and, therefore, it's like a paid loss against a reserve posting. So until you emerge out the other side it doesn't show.

The second thing, because of the magic of purchase accounting the FSA has to, because we've now booked premium in excess of the expected loss, you now have that reserve plus the inner premium. And believe it or not, the recovery, a new term we defined in the 10-Q, is a contra liability sitting in the unearned premium reserve. So a long story short, the total amount of currently anticipated recoveries on everything is about \$1.1 billion.

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**Unidentified Audience Member**

And that's in the balance sheet.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Pardon me?

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**Unidentified Audience Member**

That has been recorded on the balance sheet.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Yes, and that's based on the current level of (technical difficulty) expectations which obviously we are booked to an ultimate expectation of loss emergence. And it's a percentage, we believe is the true level of recovery because, as you said, the recoverable asset you've got to take into consideration the time to recover, the potential for litigation, potential settlement through litigation. So you tend to hair cut what the real number is.

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**Unidentified Audience Member**

Great. And then, Sean, one thing that caught me was kind of interesting is (technical difficulty) for any mortgages asset class.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Well, I think as in every asset you've got to make sure you can analyze it. It's our view at this juncture where new mortgages are being originated in sort of an episodic way and where we think that there is really fraudulent practice or incentives that are not correctly aligned with our incentives on the origination of the product, on the servicing on the product, on the liquidation of the product on the other side.

So until we think we've got terms that we can underwrite appropriately and take risk that we think is good for our portfolio and then not adding additional risk that we can't predict, we're not going to do that.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

This is a corporate decision. So as Howard says there is a lot of involvement of senior management in terms of the strategy. So as we look through under lessons learned of the past, fraud has now popped up in too many aspects of what we see in terms of having a significant influence on mortgage behavior or performance. And, therefore, we feel very uncomfortable now having understood that fraud can start at an origination through the applicant's statements on his application.

They can start out through the broker in terms of his ability to kind of walk an application through to make sure that it gets approved by saying the right thing. It could start at the originator who is looking to just kind of prime the mill of the pump to get as much throughput through the process of getting the spread differential that the securitizations embody.

It sits out there with the appraiser and how he's tied to the broker in terms of the origination acceptance. It now gets into the servicer as to how they dispose their properties and are they at true market rates and fair value. So as we now start to identify all these little pockets of huge issues there is at this point in time from the corporation's point of view no way to get comfortable on that.

So unless we can get to a structure that says on a demand of reimbursement I immediately get reimbursed or I hold some funds in escrow that gets me immediate reimbursement, there's no way you can step into this thing in the current environment. And real estate is one of those assets that does lend itself to speculation, to over evaluation. I mean, if you think of credit card receivables, it is what it is.

You think about automobiles, it's never going to be worth more money the day you drive it off the showroom floor. And there's nobody speculating the fact that my '63 Chevy is going to be worth 10 times more in eight more months if I hold it. So this is a strange asset. And obviously lessons learned, eyes opened through this marketplace, we've been blinded by kind of our own lack of foresight in terms of where all of that exposure embeds itself.

We say, okay, at the end of the day we're not touching this until we can either figure out a way to engineer it out or it's just not going to be some things that are going to be done in the financial guaranty industry.

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**Unidentified Audience Member**

Two new business questions for Sean. First, in the muni market given that we're still in a heightened credit sensitive marketplace, what amount of pricing do you think can be given back as credit fears stabilize?

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Well, good question. Two things that we look at -- job number one is to have investors, both retail and institutional, understand our credit. So our number one corporate goal has been to stabilize ourselves, make sure people understand how we're different than others in the industry and why our value proposition is here to stay. That's first.

Second, if you think about what we were talking about earlier, a couple of us, if you think about what are we doing really in municipal finance it's we're measuring the ability to pay and the willingness to pay. And in this stressed environment, the political risk or the political decisions that are made are really one of the things that we're keenly focused on.

So we've tightened our underwriting standards in this process. But also we're getting a lot of feedback from investors where they say we more appreciate now what you do because you stand in the shoes of the investor and you can adjust credit to make them work if there's a stressful environment.

Russ alluded to this quickly, but a lot of time on waivers and amendments what are we doing? We're making the underlying deals work. Now, think about it. An unwrapped transaction in the muni world, if you want to change a covenant, if you come up against something that's affecting your credit, what do you have to do? You've got to go either refinance the whole deal, maybe interest rates aren't working in your favor, or you've got to go ask every bond holder permission.

So our role, one of the values we're bringing to the table is that. And so if we think about the credit spread that we have, those concerns are sort of measured in the fact that spreads are wider and, therefore, we have an opportunity to appropriately price and structure transactions on a going forward basis better than we would have three years ago. So historically, the industry was aiming to take two-thirds of the spread.

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**Unidentified Audience Member**

How much in terms do you think the pricing and the economics that you're getting out of the spread versus what you might have done historically?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Funny, somebody did an analysis for me not that long ago. He's standing in the back of the room. Bill, do you want to answer the question?

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

You have to give him a mike.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

What percentage of the spread are we getting today on the municipal market?

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

You need a mike

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**Bill Hogan - Assured Guaranty Ltd. - Senior Managing Director - Public Finance**

We on average get about two-thirds of the pricing spread.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Bill Hogan, Head of Public Finance.

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**Bill Hogan - Assured Guaranty Ltd. - Senior Managing Director - Public Finance**

Sorry, Bill Hogan.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Geoff, I asked that exact same question because one of the things we're monitoring is as spreads widen and obviously this concern over credit perception increases, then what are we asking in terms of value. And as I said, if you go back to one of the slides you can do the quick math and see where the average premium rate has gone year-over-year and understand the book is reasonably similar.

So we're trapping more of the spread today as you look back. If you go back to 2006 you find a whole lot less percent of it is spread. But if you said an average was 40 and now we're kind of pushing to 66, 70, that's kind of a reasonable approximation.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

We're not market share oriented here. What we really are, as Dominic said, we're measuring return on equity and appropriate structure for each transaction that we're underwriting.

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**Unidentified Audience Member**

And the follow-up was on the international market. The two largest players that have historically dominated that basically collapsed. So what are your conversations like as you try to crack that market back open and convince them that you're bringing a better value prospect given what they've already experienced?

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Well, I think that two things. First, when you speak to investors in Europe, for example, they know that there's a value to the product. What they're angry about is that they didn't understand the risks that were embedded in the other companies which caused them to go under. But, again, when you look at the international market, one of the things that we have played an active role in the infrastructure transactions is really the quarterback. As these transactions go through construction and get to term out, we have played an important role.

In fact, you know what I'll do? If you'll hand the mike to Nick Proud who's just two people over, he runs our European, actually our entire international endeavor and perhaps, Nick, you can speak to that.

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**Nick Proud - Assured Guaranty Ltd. - Managing Director - Structured Finance**

Yes. I think it's interesting that actually it brings into sharp focus the value that we offer to investors. So investors that are holding positive modeling wraps are suffering from lack of information flow, lack of visibility of the underlying credit, which from a portfolio management perspective from their perspective is very difficult to manage.

And clearly what we're offering as a service is the ability to manage all those types of risks. So we're actually getting inquiries from investors saying are these the types of services that you might be able to provide outside of the wrap itself. Are the services that you could actually adopt on their behalf.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

It also goes to the thing I mentioned before about one of our big opportunities. If you think taking existing, well-performing infrastructure transactions in Europe where they were racked by AMBAC for example and saying we're going to step into their shoes, not wrap on top but step into their shoes, prices appropriately and then bring that back to being a AAA or AA bond. That's something where we think it's a great opportunity and a market value that both service the investor and the insurer.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

But your point is well made. The first thing is an apology because they're stuck with some real problems and especially when you think about the bigger problem, which we haven't talked about, that these were written by European subsidiaries and then see the majority back at the US.

So you've got a lowly capitalized European company that stands in front of a very large oversized risk that's going to depend on reimbursement from the United States if there is a claim to be paid, so the investors are very, very upset. So we have a lot of work to do just to kind of generate confidence back from the investor side of the marketplace because they're in a bad position all throughout the process.

They're not getting the information, as Nick points out, in terms of typical surveillance that they're used to that would be provided in the market place but more importantly they've got an underwritten or a guaranteed deal by the UK subsidiary that's got a capital base pretty small relative to the risk because they retain very small portions of it. So the problem gets exacerbated by that situation.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

I have a question from the website which kind of keys off what we were just recently discussing. Can you go over pricing in the municipal market right now relative to spreads which I think we've addressed but also what we are charging relative to our projected returns on the new business?

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Well, we have return on equity bonus. Bill, do you want to comment on that? I mean we have --.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Don't say anything you're not allowed to say. No pressure, Bill.

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**Bill Hogan - Assured Guaranty Ltd. - Senior Managing Director - Public Finance**

Okay, no, not at all. On a capital utilization basis our returns are in the high teens. And in terms of spreads I mentioned before on average we're capturing about two-thirds of the spreads but if you go back to when there were six companies in the industry you were probably capturing about 25% to 30% of the spread. So that's kind of the market pricing power we have right now.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Right and I think pricing discipline is important. Credit discipline and pricing discipline are key. We have enough opportunities to make our economic equation successful and it's key to some of the -- an old person we used to work with used to say a job not worth doing is not worth doing well. So I think we're going to keep --.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

When you look at returns though this is algorithmic so Dennis is -- I don't see Dennis any more. You've got -- there you are. There are four return models, right? You have each of the rating agencies.

So when you talk about municipal business one rating agency municipal business is actually capital accretive it costs you no capital. So if you did it on that basis, if you charged a dollar it would have an infinity return. Now we don't look at it this way obviously.

On another rating agency models there is capital attributed to every transaction. We try to allocate all of our capital and as we've said we've got this problem between GAAP and STAT not being equal. So we use on the STAT basis understanding that STAT represents rating agencies but we fully utilize the capital and you know in all cases capital is both available to support the existing portfolio as well as future growth.

So we're allocating all the capital against every transaction on a capital allocation model to make sure it's fully observed so we're not diluting ourselves to say this was a great deal because it had infinity returns. So we're trying to be very realistic and Dennis takes the responsibility for running that for us through the company.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

Okay, in the back?

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**Unidentified Audience Member**

Yes, I was just wondering some of the default numbers you're recording earlier, 40% to 60%, and some of your general loss reserves are those already taking into account your remediation efforts and how much credit and some of those default projections do you give already to modifications? Or is that something that you think has a potential upside to lower your default projections significantly going forward?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Yes, so the last part of the questions in terms of loan modifications we think that's an opportunity or a benefit that has not shown itself at all and we hope to see that more significantly emerge going forward.

As I said on the -- we have four scenarios basically for every RMBS deal. So one of which started at a lower default rate and if you just look at where delinquencies are today it's how much you are converting of the current delinquency bucket which you pretty much convert a high percentage of it and then the bet becomes the current borrowers and what percentage of those default.

So that gets you that blended default rate. Obviously we get benefited by excess spread in the deals which further provides absorption of losses or further protection to our current level of subordination and then the last wild card is severity. So as you play with both default rate and severity rate that's where you start to get you know the different outcomes in our model.

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**Unidentified Audience Member**

So then right now the projection, basically incorporating almost no credit to modifications is what you're saying?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Right.

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**Unidentified Audience Member**

Okay, and same goes for the remediation efforts?

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Well the remediation efforts, as Russ said, and secondly it's basically the charged off loans but we were at least reasonable enough to go out and do a study of currently paid loans and make sure that we weren't having a skewed sample where that the information we were providing to the originators was negatively impacted because you look only at charged off loans.

And we're trying to communicate this whole issue of arbitration, cooperation, whatever you want to call it. On the first lien side because we don't have the same level of charge off, if you look through our website and look at the deal performance the charge-offs are in single percents, very, very small. So there are not enough files there. So we've been looking at the delinquent files because we figured that they're the next guys coming up for potential default and we're getting to a large number of those files with obviously the same issues relative to rep and warranties.

So in that case we've looked at delinquencies and secondly pretty much defaults and take a reasonably hair-cut projection of recoveries against those numbers.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

We have time for about two more questions and then we'll break for lunch.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Down here in the front?

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**Unidentified Audience Member**

Had a question for Sean and also one for Howard. Sean, in terms of the public finance penetration rate I'm just curious what you thought the sustainable penetration rate is.

I think you mentioned 50% was over penetrated and then in terms of the market that had used bond insurance before that's not using it now how are those issuers getting by? Have they found alternatives, are they hibernating, waiting for more capacity?

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Good question. The first part, I think that there is a demand for the product ultimately in the 30% to 35% market. Again, as I said before, I don't think that AA bonds generally merit credit enhancement and I think it was really used because the product was so cheap.

But I think that for us anywhere from 10% to 15% of the market would be considered a success and would really meet our targets and exceed them. So if you put those two things together you can see that there is room for another competitor or two.

And we would expect that as we validate the use of the products and it comes back and our stability is recognized that other entrants, whether they're buying historic books from the Debt or Dine guys or whether they started and hope to achieve an appropriate return for their owners in 10 or 15 years. Either way we think there's availability for other people to enter the market.

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**Unidentified Audience Member**

And if we take the difference though between the 30% to 35% you mentioned and the 10% to 15% that Assured is doing now, what are those other issuers doing now though? How are they getting financing?

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Well, they can always go without insurance, remember, one way to think about our product is that its not necessarily -- I've never really thought about it as competing against MBIA, FGIC or AMBAC. It's really competing alternatives.

You can always go to the market directly with a rating by yourself, the use of BABS that's been part of the way large issuers that have been strapped have been going to the markets. They've been taking advantage of the interest subsidy in order to first access a different market. The taxable cross over investor and then also been focused on the fact that if you think about overall their needs, it costs them more in interest cost to access the market. But what we think we've been doing even in this stressful time is making it affordable for small issuers to come to market in time where they wouldn't.

Otherwise I think that's why as I said earlier in my presentation we really add value. We're bringing credit enhancement and liquidity to small issuers that otherwise would struggle to have investors by their securities. So that's why I think there is a pent up demand for our product in the municipal market.

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**Dominic Frederico - Assured Guaranty Ltd. - President, CEO**

Two things, right, so penetration is based on par insured. So remember, with the absence of the large deals in the insured market that accounts for a significant percent. Remember, in terms of a number of transactions the penetration rate was over 20%. In terms of par insured it was 9%.

So if it was the same type of distribution in terms of size of deals 9% could be as high as 20%. Number two, where they're going. They're either going uninsured so the larger higher rated issuers are saying okay I got to go to the market straight up, and there seems to be an appetite for accepting that risk or, two, they were using letters of credit.

Now that was very popular in '08, where there was a lot of capacity for letters of credit, less popular in '09. Those numbers have shrunk considerably, so it's basically the higher rated issuers that go to market directly without insurance.

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**Sean McCarthy - Assured Guaranty Ltd. - COO**

Think about it this way. If you look at the chart that I had up before that's in the handouts that you have, for page 10 of mine, I don't know what the pages of the master is but it's a compelling thing to note. If you look at transaction sizes of \$10 million or less we credit enhance 1,097 transactions, 63% of that available market we credit enhance which speaks to the demand.

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**Unidentified Audience Member**

And just one for Howard if I may? Clearly the reps and warranties have been very, very helpful for Assured, but what sort of changes have been made on the front end so that these sort of deals you know don't end up in the portfolio?

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**Howard Albert - Assured Guaranty Ltd. - Managing Director, Chief Risk Officer**

Well we haven't really done a lot in structured finance since all of this has happened. But if you're asking what can we do from the standpoint of due diligence. First of all we clearly need to do a more thorough job of file reviews and comparing their underwriting criteria to what's actually in their portfolios.

We can look through to, if we were in the mortgage business for example, we can look through to the appraisers and we can do appraisal audits and compare our own independent appraisals to theirs. We have to recognize that some of the ways in which loans were categorized, for example, whether they were really owner occupied, that there were subtle forms of fraud that went on in those areas and so we're going to have to test whether in fact they really are owner occupied.

There are a series of features of loans that we'll have to actually test through due diligence by sending in independent consultants who will have to pull out a statistically significant sample size of files and review a long list of criteria that we'll prepare for them.

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**Sabra Purtill - Assured Guaranty Ltd. - Managing Director - IR**

Thanks. With that I think we should wrap up. As I mentioned we do have a buffet lunch with senior management at 12:30. As you come out of the foyer here you will be directed to where the luncheon is.

I also just wanted to note that there're other members of senior management here that will be at the lunch in particular, obviously you have Bill Hogan, spoke as Senior Managing Director of our Public Finance Group. Paul Livingstone is also here and he's a Senior Managing Director of our Structured Finance. Nick Proud who you heard from, we also have Jim Michener, our General Counsel and Ling Chow our Deputy General Counsel as well as Bruce Stern who's in charge of our Governmental Affairs.

And of course our fixed income investor relations team Robert Tucker, Mike Walker and then Betsy Castenir, Head of Corporate Communications. We thank you all very much for joining us here today and taking the time to be with us and we look forward to talking to you soon. And Kevin Pearson, I apologize, Kevin Pearson as the Reinsurance Group. Thank you.