

Keefe, Bruyette & Woods  
**2011 Insurance Conference**  
**September 7, 2011**



**ASSURED  
GUARANTY®**  
FAMILY OF COMPANIES

The financial statements contained herein should not be relied on because Assured Guaranty will be restating them. For additional information, see the Current Report on Form 8-K that Assured Guaranty filed on or about October 18, 2011 with the Securities and Exchange Commission on this matter. It is available on the SEC Filings page of [www.assuredguaranty.com](http://www.assuredguaranty.com).

# Safe Harbor Disclosure



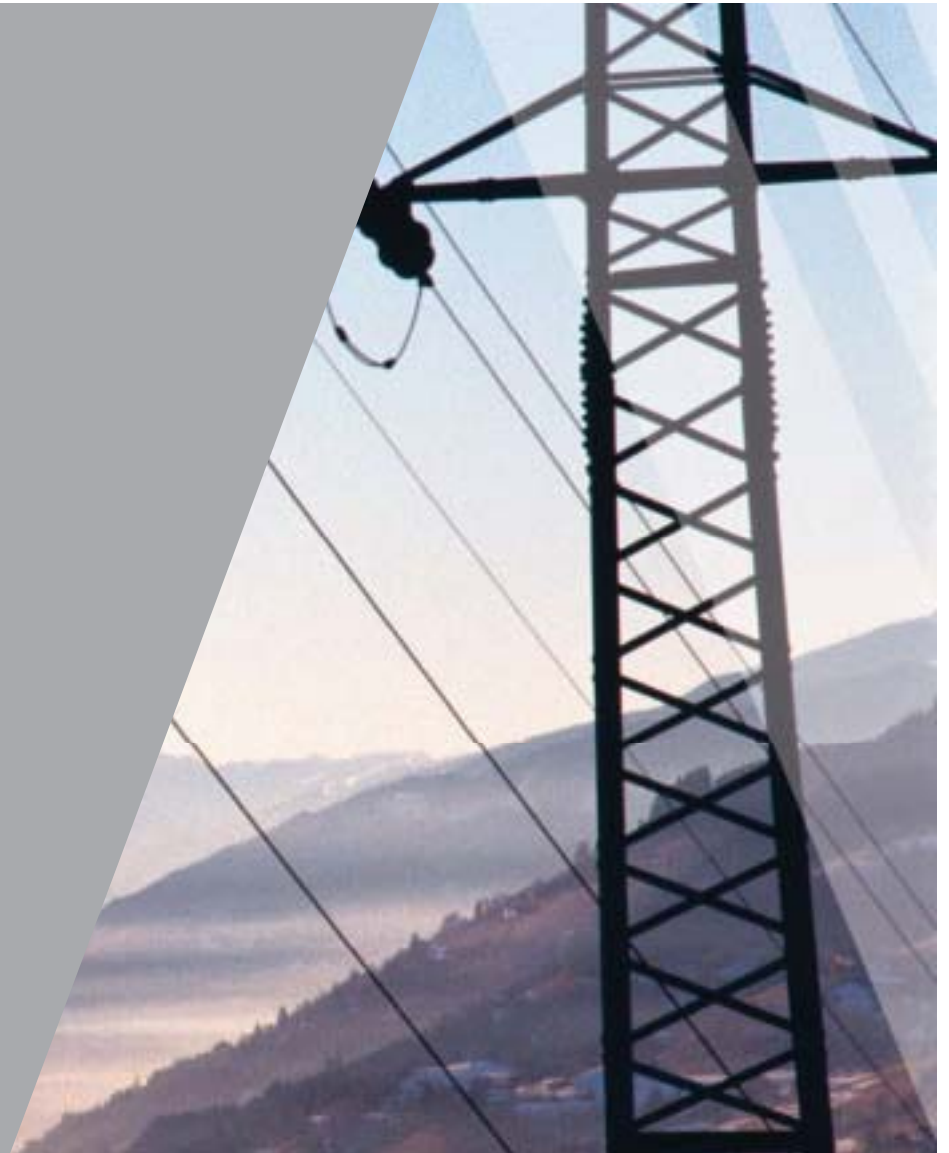
- Forward-looking statements are being made in this presentation that reflect the current views of Assured Guaranty Ltd. (“AGL” and, together with its subsidiaries, “Assured Guaranty” or the “Company”) with respect to future events and financial performance. They are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from these statements. For example, Assured Guaranty’s forward-looking statements could be affected by:
  - rating agency action, including a ratings downgrade or change in outlook at any time of Assured Guaranty Ltd. or any of its subsidiaries and/or of transactions insured by AGL’s subsidiaries, both of which have occurred in the past, or a change in rating criteria;
  - developments in the world’s financial and capital markets that adversely affect issuers’ payment rates, Assured Guaranty’s loss experience, its ability to cede exposure to reinsurers, its access to capital, its unrealized (losses) gains on derivative financial instruments or its investment returns;
  - changes in the credit markets, segments thereof or general economic conditions;
  - more severe or frequent losses implicating the adequacy of Assured Guaranty’s loss reserve;
  - the impact of market volatility on the mark-to-market of its contracts written in credit default swap form;
  - reduction in the amount of insurance and reinsurance opportunities available to Assured Guaranty;
  - deterioration in the financial condition of our reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to us under our reinsurance agreements;
  - the possibility that the Company will not realize insurance loss recoveries or damages expected from originators, sellers, sponsors, underwriters or servicers of residential mortgage-backed securities transactions
  - increased competition;
  - changes in applicable accounting policies or practices;
  - changes in applicable laws or regulations, including insurance and tax laws;
  - other governmental actions;
  - difficulties with the execution of Assured Guaranty’s business strategy;
  - contract cancellations;
  - Assured Guaranty’s dependence on customers;
  - loss of key personnel;
  - adverse technological developments;
  - the effects of mergers, acquisitions and divestitures;
  - natural or man-made catastrophes;
  - other risks and uncertainties that have not been identified at this time;
  - management’s response to these factors; and
  - other risk factors identified in Assured Guaranty’s filings with the Securities and Exchange Commission (the “SEC”).
- See Assured Guaranty’s SEC filings and latest earnings press release and financial supplement, which are available on its website, for more information on factors that could affect its forward-looking statements. Do not place undue reliance on these forward-looking statements, which are made only as of September 7, 2011. Assured Guaranty does not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

# Conventions and Non-GAAP Financial Measures



- Unless otherwise noted, the following conventions are used in this presentation:
  - Ratings on our insured portfolio and on bonds purchased pursuant to loss mitigation or risk management strategies are Assured Guaranty's internal rating. Although the Company's ratings scale is similar to that used by the nationally recognized statistical rating organizations, the ratings may not be the same as ratings assigned by any such rating agency.
  - The super senior category, which is not generally used by rating agencies, is used by Assured Guaranty in instances where its AAA-rated exposure has additional credit enhancement due to either (1) the existence of another security rated AAA that is subordinated to Assured Guaranty's exposure or (2) Assured Guaranty's exposure benefitting from a different form of credit enhancement that would pay any claims first in the event that any of the exposures incurs a loss, and such credit enhancement, in management's opinion, causes Assured Guaranty's attachment point to be materially above the AAA attachment point.
  - Exposures rated below investment grade are designated "BIG".
  - Ratings on the investment portfolios are the lower of the ratings from Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Ratings Services ("S&P").
  - Percentages and totals in tables or graphs may not add due to rounding.
- This presentation references financial measures that are not in accordance with U.S. generally accepted accounting principles ("GAAP"), which management uses in order to assist analysts and investors in evaluating Assured Guaranty's financial results. These financial measures not in accordance with GAAP ("non-GAAP financial measures") are defined in the appendix. In each case, the most directly comparable GAAP financial measure, if available, is presented, and a reconciliation of the non-GAAP financial measure and GAAP financial measure is provided. This presentation is consistent with how Assured Guaranty's management, analysts and investors evaluate Assured Guaranty's financial results and is comparable to estimates published by analysts in their research reports on Assured Guaranty.

**Dominic Frederico**  
*President and Chief Executive Officer*



# Assured Guaranty Today



## Assured Guaranty Ltd.

As of June 30, 2011

(\$ in billions)	
Net par outstanding	\$587.2
Total investment portfolio	\$11.2
Total assets <sup>1</sup>	\$19.2
Net unearned premium reserve <sup>2</sup>	\$5.5
Shareholders' equity	\$4.0
Claims-paying resources	\$13.1

- **We are the leading financial guaranty franchise**
  - More than 22 years of experience in the municipal and structured finance markets
- **We serve the market through two platforms:**
  - Assured Guaranty Municipal Corp. (“AGM”) focuses on public finance and infrastructure transactions
  - Assured Guaranty Corp. (“AGC”) guarantees public finance, global infrastructure and structured finance transactions
- **We are also the largest financial guaranty reinsurer through Assured Guaranty Re Ltd. (“AG Re”), domiciled in Bermuda**

1. Includes \$3.5 billion in financial guaranty variable interest entities (“VIE”) assets.

2. Unearned premium reserve net of ceded unearned premium reserve.

# S&P Bond Insurance Criteria

## Proposed Criteria / Issues Raised / S&P Reaction



Proposed Criteria	Issue	S&P Reaction
<b>Leverage test</b>	The leverage test ignored credit quality and tenor. Also, it did not include UPR as part of the company's capital base.	Ignored all.
<b>Category breakout</b>	Collapsed all issuers into 4 categories (previously 16).	Ignored.
<b>Increased municipal capital charges</b>	Contradicted S&P's own public finance department on municipal defaults <sup>1</sup> and Hempel study of severities for investment grade securities during the Great Depression.	Lowered from proposed but still significantly increased over prior years without support.
<b>Single-risk limit</b>	Unjustified and punitive to charge any "overage" 100% of the par amount.	Eliminated and replaced by even more punitive test.

1. November 8, 2010 article entitled "U.S. States and Municipalities Face Crises More of Policy than Debt".

# S&P Bond Insurance Criteria

## Proposed Criteria / Issues Raised / S&P Reaction



<b>Additional Issues</b>	<b>Issue</b>	<b>S&amp;P Reaction</b>
<b>Purpose of criteria</b>	Main support for changing the financial guaranty criteria was unclear.	Ignored.
<b>Reliance on qualitative measures</b>	Over 60% of the proposed criteria is qualitative and therefore subjective.	Ignored.
<b>Only using cash and short-term investments as part of the liquidity test</b>	Excluded highly liquid investments, such as Treasuries.	Ignored.
<b>Treating all investments rated below “A” as worthless in stress model</b>	Excluded certain investment grade securities, which contradicts S&P’s own definition. <sup>1</sup>	Ignored.

1. S&P defines BBB as having adequate capacity to meet financial commitments but more subject to adverse economic conditions than A rated.

# S&P Bond Insurance Criteria

## Increased Municipal Capital Charges (Cont'd)



### Municipal Capital Charge Changes

Sector	Old Capital Charges (%AADS)		Proposed Capital Charges in January (%AADS)		Final Capital Charges (%AADS) at AAA Level		Final Capital Charges (%AADS) at AA Level (0.80x)		% Increase in Final Capital Charges From Old Capital Charges at AA Level	
	BBB	A	BBB	A	BBB	A	BBB	A	BBB	A
State GO's	4	2	21	12	15	9	12	7	200%	260%
City/County GO's	13	7	21	12	15	9	12	7	(8)%	3%
Schools – GO's	5	3	21	12	15	9	12	7	140%	140%
Water, Sewer (Rev)	16	8	21	12	15	9	12	7	(25)%	(10)%
Public Power	20	11	35	19	31	18	25	14	24%	31%
Hospitals	46	25	78	41	118	67	94	54	105%	114%
Human service providers	26	14	78	41	118	67	94	54	263%	283%
Private universities general obligation	33	18	78	41	118	67	94	54	186%	198%
Airports	16	8	35	19	31	18	25	14	55%	80%

# S&P Bond Insurance Criteria

## Increased Municipal Capital Charges



- **The new capital charges were derived by applying corporate default rates to municipal issuers. This assumption deviates significantly from all available historical data, including S&P's, as shown below:**

**CDO Evaluator by Rating**

	BBB	A	AA	AAA
Default rates used to calculate municipal capital charges (from CDO evaluator)	19.71%	10.20%	5.62%	2.74%
15yr U.S. Avg Cum Def Rate (Corporate) <sup>1</sup>	8.39%	3.30%	1.39%	1.37%
CDO Evaluator 5.1 Default Table for Munis (15yr)	3.10%	1.77%	1.20%	0.69%
Muni Cum Avg 15yr Def Rate (1986 – 2010) <sup>2</sup> (15yr)	0.39%	0.10%	0.06%	NA
Muni Cum 15yr Worst Cohort Def Rate (1986 – 2010) <sup>2</sup>	1.11%	0.17%	0.06%	NA

[1] Data per S&P's March 30, 2011 publication "2010 Annual Global Corporate Default Study And Rating Transitions"

[2] Data per S&P's March 2, 2011 publication "U.S. Public Finance Defaults And Rating Transition Data: 2010 Update"

# S&P Bond Insurance Criteria

## Largest Obligor Test (Single-Risk Limit)



	S&P	Market Feedback/Comment																				
<b>Original Large Obligor Test (“LOT”)</b>	Statutory net income + Taxes - Refunded earned premiums + Lowest five-year refunded earned premiums - Capital gains + Capital losses - Miscellaneous earnings + Miscellaneous losses = Core single-risk earnings X Two = Single-risk loss tolerance	Single-risk limits based on six different categories segmented by sector. Estimated largest exposure limit was previously \$4.1 billion per issuer: New Jersey, California or any other category 1 credit (e.g., state G.O., water, sewer), based on December 31, 2010 data.																				
<b>Final LOT</b>	Capital base is now 25% of statutory capital (\$1.4 billion for Assured Guaranty). Test evaluates groups of securities and assigns a loss severity rate regardless of historical recoveries.  <table border="0"> <thead> <tr> <th><u>Exposures</u></th> <th><u>Municipal severity rate</u></th> <th></th> <th><u>Average par per test group</u></th> </tr> </thead> <tbody> <tr> <td>Two largest</td> <td>40%</td> <td>—————&gt;</td> <td>\$1.75 billion</td> </tr> <tr> <td>Three largest rated below AAA</td> <td>40%</td> <td></td> <td>\$1.17 billion</td> </tr> <tr> <td>Four largest rated below AA-</td> <td>40%</td> <td>—————&gt;</td> <td>\$875 million</td> </tr> <tr> <td>Six largest rated below A-</td> <td>40%</td> <td></td> <td>\$583 million</td> </tr> </tbody> </table>	<u>Exposures</u>	<u>Municipal severity rate</u>		<u>Average par per test group</u>	Two largest	40%	—————>	\$1.75 billion	Three largest rated below AAA	40%		\$1.17 billion	Four largest rated below AA-	40%	—————>	\$875 million	Six largest rated below A-	40%		\$583 million	Reduction in the capital base used for the LOT significantly reduced par allowance, from \$4.1 billion of par per issuer to \$3.5 billion of par per investment grade grouping. Largest two exposures, currently New Jersey and California, cannot add up to more than \$3.5 billion combined (\$1.4 billion / 40%), or \$1.75 billion average par.
<u>Exposures</u>	<u>Municipal severity rate</u>		<u>Average par per test group</u>																			
Two largest	40%	—————>	\$1.75 billion																			
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Four largest rated below AA-	40%	—————>	\$875 million																			
Six largest rated below A-	40%		\$583 million																			

# S&P Bond Insurance Criteria

## Largest Obligor Test (Single-Risk Limit) Cont'd



### 2006 Largest Obligor Test by Company

Company (\$ in millions)	AGL		FSA		MBIA		AMBAC <sup>1</sup>		FGIC	
	Par	Stress loss <sup>2</sup>	Par	Stress loss <sup>2</sup>	Par	Stress loss <sup>2</sup>	Par	Stress loss <sup>2</sup>	Par	Stress loss <sup>2</sup>
25% of statutory capital (LOT limit)		<b>\$414.5</b>		<b>\$638.5</b>		<b>\$1,639.7</b>		<b>\$1,642.2</b>		<b>\$601.3</b>
The two largest exposures	1,523.0	<b>609.2</b>	2,517.6	<b>1,007.0</b>	6,396.0	<b>2,557.2</b>	4,716.0	<b>1,886.4</b>	2,422.0	<b>968.8</b>
The three largest exposures lower than 'AAA'	2,193.0	<b>877.2</b>	3,721.7	<b>1,488.7</b>	8,980.0	<b>3,592.0</b>	6,475.0	<b>2,590.0</b>	3,608.3	<b>1,443.3</b>
The four largest exposures lower than 'AA-'	2,805.0	<b>1,122.0</b>	4,552.0	<b>1,820.8</b>	11,210.0	<b>4,484.0</b>	7,345.0	<b>2,938.0</b>	4,723.8	<b>1,889.5</b>
Pass/Fail LOT		<b>Fail</b>		<b>Fail</b>		<b>Fail</b>		<b>Fail</b>		<b>Fail</b>

**Every company would have failed the new largest obligor test in 2006**

1. 1Q-07 operating supplement data.
  2. Stress loss is par at 40% severity, and therefore equal to the capital threshold allowed by the new largest obligor test.
- Source: Based on 4Q-06 company operating supplements (1Q-07 for AMBAC)

# Leverage by Company



## 2006 Leverage by Company

Company (\$ in millions)	AGL	FSA	MBIA	AMBAC	FGIC
Total net par outstanding	\$132,296	\$376,456	\$617,553	\$519,043	\$299,889
U.S. residential mortgage-backed securities ("RMBS")	11,391	15,711	28,026	46,239	36,136
Percent of total	8.6%	4.2%	4.5%	8.9%	12.0%
Total statutory capital	\$1,658.0	\$2,554.1	\$6,558.8	\$6,568.8	\$2,405.1
Leverage (net par/capital)	80:1	147:1	94:1	79:1	125:1
RMBS leverage (RMBS par/capital)	7:1	6:1	4:1	7:1	15:1

**Every company would have failed the new leverage test in 2006**

# Previous Initiatives to Address S&P Capital Requirements



## Strategy

- **Actively pursue termination of contracts**
  - At beneficiary's request; keep all economics, possibly more
  - At our request; share economics with beneficiary
  - To eliminate high capital charges, share or possibly give up some economics
- **Pursue capital-accretive reinsurance commutations**
- **Purchase wrapped bonds**
- **Negotiate comprehensive agreements on representation and warranty ("R&W") claims**

## First Half of 2011 Results

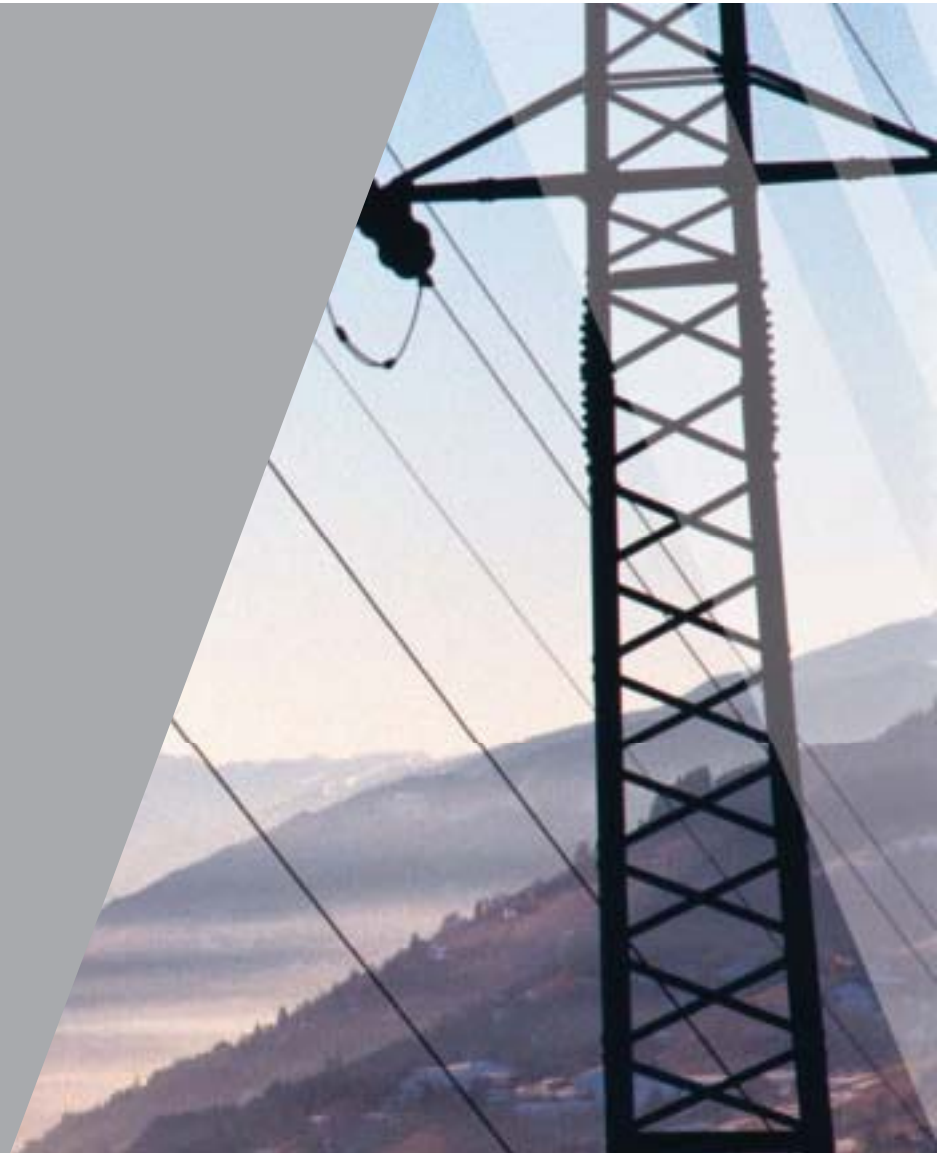
- **Agreements to terminate \$8.9 billion of par, including \$7.7 billion of CDS notional, creating \$200-\$400 million of estimated capital benefit**
- **Reinsurance commutation resulting in pre-tax income of \$32.2 million, up from \$16.7 million in first six months of 2010**
- **Purchases of insured securities with par of \$556 million at a purchase price of \$243 million producing an estimated capital benefit of \$50-\$100 million**
- **Execution of Bank of America agreement**

- **The Company can address rating agency capital requirements through different measures**
  - R&W settlements
  - Wrapped bond purchases
  - Reinsurance
  - Termination agreements

### **Next Steps**

- **Continue to evaluate the effect of S&P's final criteria on the Company's financial strength ratings**
- **Meet with S&P management to discuss criteria**
- **Disclose to the market our findings either through presentations, press release or conference call**

**Rob Bailenson**  
*Chief Financial Officer*



# Adjusted Book Value



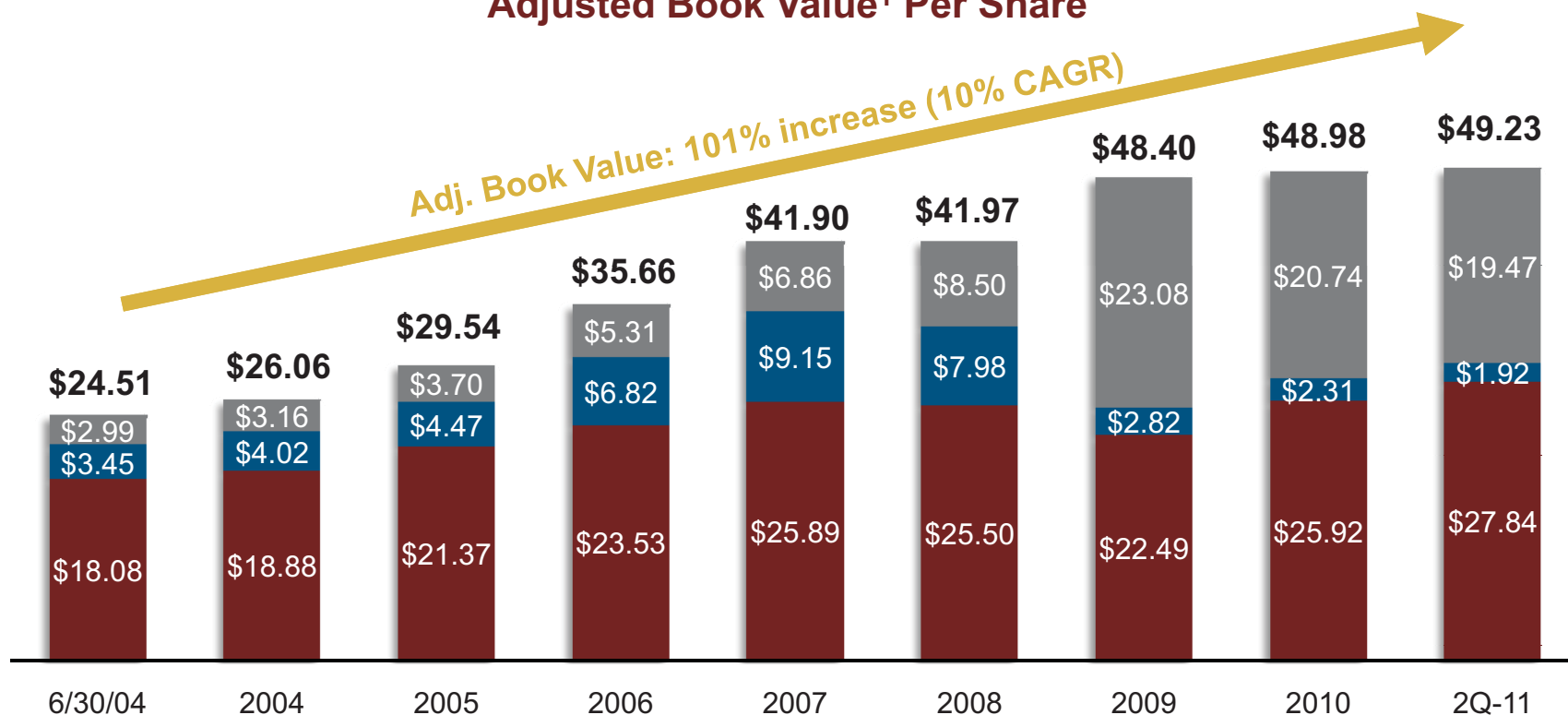
- **Adjusted book value is a key measure of the long-term embedded economic value or intrinsic value of the Company**
- **Includes the present value of all future premium earnings based on current debt service schedules**
- **Includes the present value of all future losses to be expensed based on current estimates of expected losses**
- **Entire insured portfolio is conformed to the financial guaranty insurance model, which better reflects the economic results of the portfolio and is consistent with how it is managed internally**
  - Credit derivative mark-to-market is reversed except for expected premiums and losses
  - Effects of VIE consolidation are reversed
  - Investment mark-to-market is reversed except for other than temporary impairments
- **Includes the expense of deferred acquisition costs**
- **Does not include future net investment income, interest expense, operating expense or potential new loss events**

# Operating Shareholders' Equity and Adjusted Book Value Per Share Growth



## Adjusted Book Value<sup>1</sup> Per Share

Adj. Book Value: 101% increase (10% CAGR)



- Operating shareholders' equity per share
- Net present value of estimated net future credit derivative revenue in force and net unearned revenue on credit derivatives, after tax
- Net unearned premium reserve on financial guaranty contracts in excess of net expected loss to be expensed less deferred acquisition costs, after tax

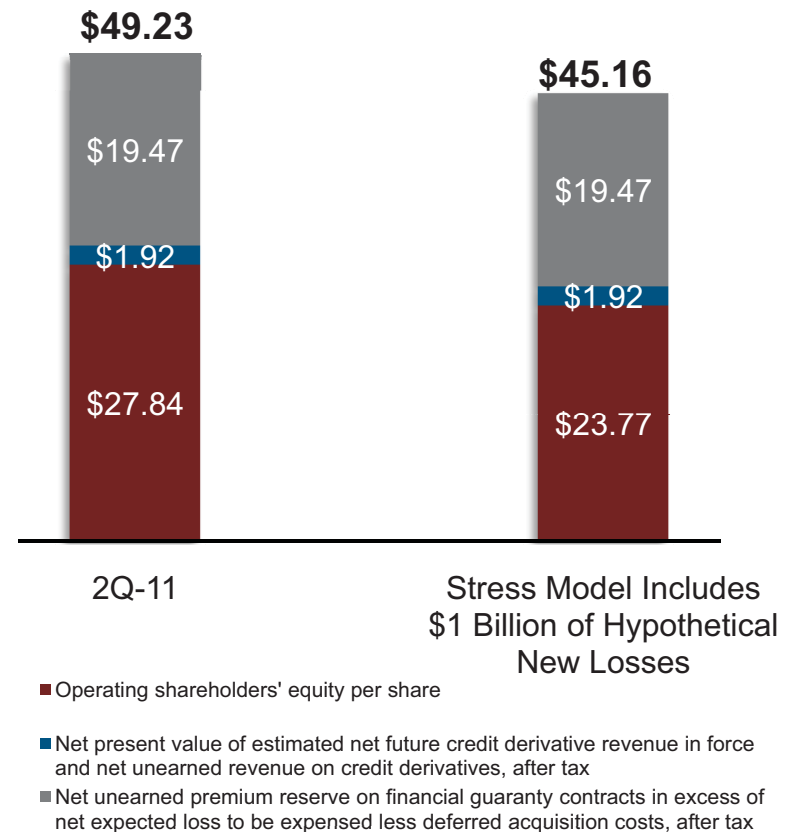
1. For a reconciliation of shareholders' equity (GAAP book value) to adjusted book value and for explanations of adjusted book value, net present value of estimated net future credit derivative revenue and operating shareholders' equity, which are non-GAAP financial measures, please refer to the appendix. Effective January 1, 2010, GAAP accounting required the consolidation of VIEs where the Company is determined to be the control party through rights under our financial guaranty insurance contracts. For those VIEs that the Company consolidates, it records all of the activities of the VIEs and eliminates the related insurance accounting. Operating shareholders' equity reverses the financial effect of consolidating these entities and accounts for them as financial guaranty insurance contracts in order to present the Company's insured obligations on a consistent basis.

# Adjusted Book Value Sensitivity Current/Base/Stress Modeled



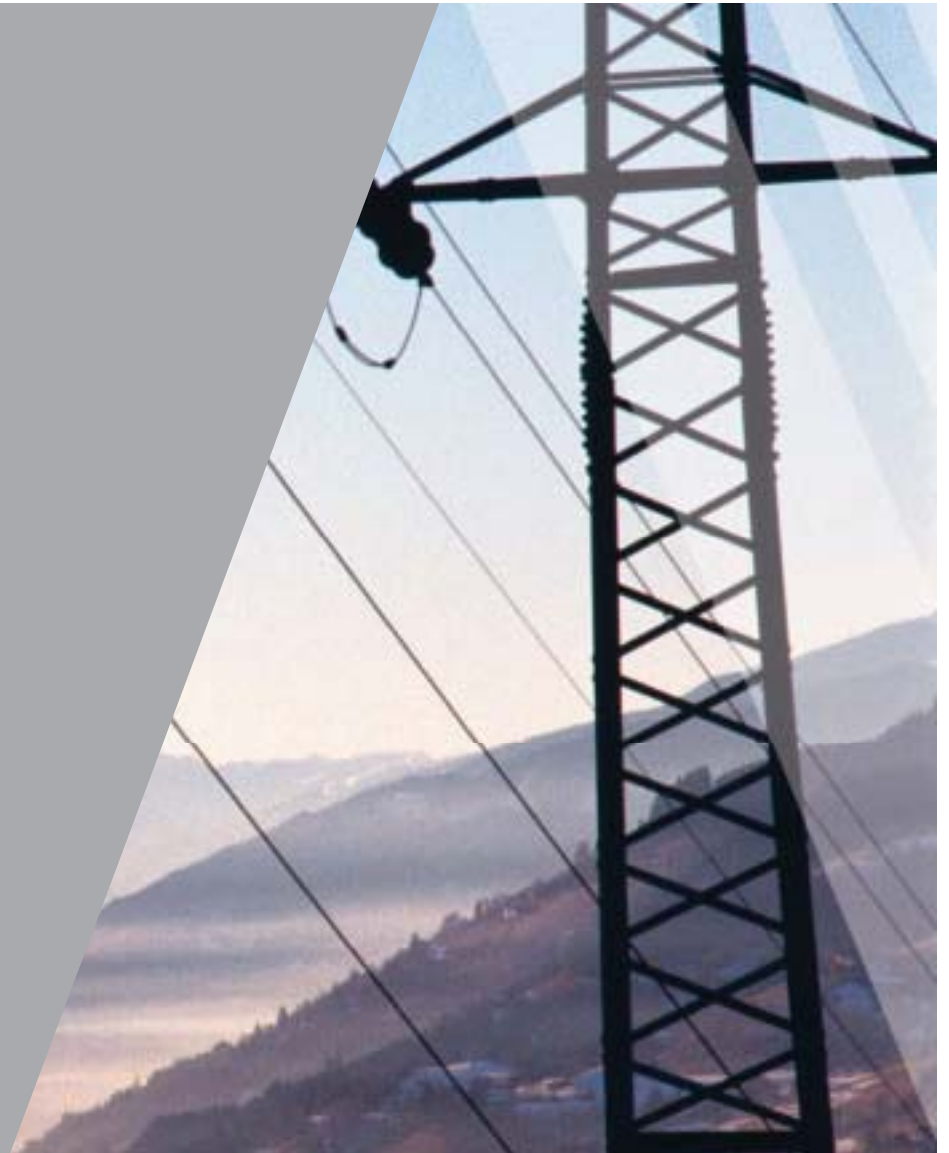
## Adj. Book Value<sup>1</sup> to Modeled Adj. Book Value: Includes Future Hypothetical \$1 Billion Loss Expenses

- Adjusted book value was modeled for \$1 billion of additional hypothetical losses
- Tax rate of 25%
- Does not include future investment income, interest expense or operating expenses



1. For a reconciliation of shareholders' equity (GAAP book value) to adjusted book value and for explanations of adjusted book value, net present value of estimated net future credit derivative revenue and operating shareholders' equity, which are non-GAAP financial measures, please refer to the appendix. Effective January 1, 2010, GAAP accounting required the consolidation of VIEs where the Company is determined to be the control party through rights under our financial guaranty insurance contracts. For those VIEs that the Company consolidates, it records all of the activities of the VIEs and eliminates the related insurance accounting. Operating shareholders' equity reverses the financial effect of consolidating these entities and accounts for them as financial guaranty insurance contracts in order to present the Company's insured obligations on a consistent basis.

# Appendix



# Appendix

## Explanation of Non-GAAP Financial Measures



### Endnotes related to non-GAAP financial measures discussed in the presentation:

The Company references financial measures that are not in accordance with GAAP. Assured Guaranty's management and board of directors utilize non-GAAP measures in evaluating the Company's financial performance and as a basis for determining senior management incentive compensation. By providing these non-GAAP financial measures, investors, analysts and financial news reporters have access to the same information that management reviews internally. In addition, Assured Guaranty's presentation of non-GAAP financial measures is consistent with how analysts calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and with how investors, analysts and the financial news media evaluate Assured Guaranty's financial results.

The following paragraphs define each non-GAAP financial measure and describe why it is useful. A reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure, if available, is presented within this presentation. Non-GAAP financial measures should not be viewed as substitutes for their most directly comparable GAAP measures.

**Operating Income:** Management believes that operating income is a useful measure because it clarifies the understanding of the underwriting results of the Company's financial guaranty insurance business, and also includes financing costs and net investment income, and enables investors and analysts to evaluate the Company's financial results as compared with the consensus analyst estimates distributed publicly by financial databases. Operating income is defined as net income (loss) attributable to Assured Guaranty Ltd., as reported under GAAP, adjusted for the following:

1. Elimination of the after-tax realized gains (losses) on the Company's investments, except for gains and losses on securities classified as trading. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile. Trends in the underlying profitability of the Company's business can be more clearly identified without the fluctuating effects of these transactions.
2. Elimination of the after-tax non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss. Additionally, such adjustments present all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.
3. Elimination of the after-tax fair value gains (losses) on the Company's committed capital securities. Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
4. Elimination of the after-tax foreign exchange gains (losses) on revaluation of net premium receivables. Long-dated receivables constitute a significant portion of the net premium receivable balance and represent the present value of future contractual or expected collections. Therefore, the current period's foreign exchange revaluation gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.
5. Elimination of the effects of consolidating certain financial guaranty VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.

# Appendix (Cont'd)

## Explanation of Non-GAAP Financial Measures



**Operating Shareholders' Equity:** Management believes that operating shareholders' equity is a useful measure because it presents the equity of Assured Guaranty Ltd. with all financial guaranty contracts accounted for on a more consistent basis and excludes fair value adjustments that are not expected to result in economic loss. Many investors, analysts and financial news reporters use operating shareholders' equity as the principal financial measure for valuing Assured Guaranty Ltd.'s current share price or projected share price and also as the basis of their decision to recommend, buy or sell Assured Guaranty Ltd.'s common shares. Many of the Company's fixed income investors also use operating shareholders' equity to evaluate the Company's capital adequacy. Operating shareholders' equity is the basis of the calculation of adjusted book value (see below). Operating shareholders' equity is defined as shareholders' equity attributable to Assured Guaranty Ltd., as reported under GAAP, adjusted for the following:

1. Elimination of the effects of consolidating certain VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.
2. Elimination of the after-tax non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
3. Elimination of the after-tax fair value gains (losses) on the Company's committed capital securities. Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
4. Elimination of the after-tax unrealized gains (losses) on the Company's investments that are recorded as a component of accumulated other comprehensive income (AOCI) (excluding foreign exchange revaluation). The AOCI component of the fair value adjustment on the investment portfolio is not deemed economic because the Company generally holds these investments to maturity and therefore will not recognize an economic loss.

**Operating return on equity ("Operating ROE"):** Operating ROE represents operating income for a specified period divided by the average of operating shareholders' equity at the beginning and the end of that period. Management believes that operating ROE is a useful measure to evaluate the Company's return on invested capital. Many investors, analysts and members of the financial news media use operating ROE to evaluate Assured Guaranty Ltd.'s share price and as the basis of their decision to recommend, buy or sell the Assured Guaranty Ltd. common shares. Quarterly and year-to-date operating ROE are calculated on an annualized basis.

# Appendix (Cont'd)

## Explanation of Non-GAAP Financial Measures



**Adjusted Book Value:** Management believes that adjusted book value is a useful measure because it enables an evaluation of the net present value of the Company's in-force premiums and revenues in addition to operating shareholders' equity. The premiums and revenues included in adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current adjusted book value due to changes in, foreign exchange rates, refinancing or refunding activity, prepayment speeds, terminations, credit defaults and other factors. Many investors, analysts and financial news reporters use adjusted book value to evaluate Assured Guaranty Ltd.'s share price and as the basis of their decision to recommend, buy or sell the Assured Guaranty Ltd. common shares. Adjusted book value is operating shareholders' equity, as defined above, further adjusted for the following:

1. Elimination of after-tax deferred acquisition costs. These amounts represent net deferred expenses that have already been paid or accrued and will be expensed in future accounting periods.
2. Addition of the after-tax net present value of estimated net future credit derivative revenue. See below.
3. Addition of the after-tax value of the unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums, net of expected losses to be expensed. Net expected losses to be expensed are not reflected in GAAP equity.

**Net present value of estimated net future credit derivative revenue:** Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated credit derivative revenue. There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from the Company's credit derivative in-force book of business, net of reinsurance, ceding commissions and premium taxes for contracts without expected economic losses, and is discounted at 6% (which represents the Company's tax-equivalent pre-tax investment yield on its investment portfolio). Estimated net future credit derivative revenue may change from period to period due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults or other factors that affect par outstanding or the ultimate maturity of an obligation.

**PVP or present value of new business production:** Management believes that PVP is a useful measure because it enables the evaluation of the value of new business production for Assured Guaranty by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period as well as premium supplements and additional installment premium on existing contracts as to which the issuer has the right to call the insured obligation but has not exercised such right, whether in insurance or credit derivative contract form, which GAAP gross premiums written and the net credit derivative premiums received and receivable portion of net realized gains and other settlement on credit derivatives ("Credit Derivative Revenues") do not adequately measure. PVP in respect of insurance and credit derivative contracts written in a specified period is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums, in each case, discounted at 6% (the Company's tax-equivalent pre-tax investment yield on its investment portfolio). For purposes of the PVP calculation, management discounts estimated future installment premiums on insurance contracts at 6%, while under GAAP, these amounts are discounted at a risk-free rate. Additionally, under GAAP, management records future installment premiums on financial guaranty insurance contracts covering non-homogeneous pools of assets based on the contractual term of the transaction, whereas for PVP purposes, management records an estimate of the future installment premiums the Company expects to receive, which may be based upon a shorter period of time than the contractual term of the transaction. Actual future net earned or written premiums and Credit Derivative Revenues may differ from PVP due to factors including, but not limited to, changes in foreign exchange rates, refinancing or refunding activity, prepayment speeds, terminations, credit defaults, or other factors that affect par outstanding or the ultimate maturity of an obligation.

# Appendix

## PVP<sup>1</sup> – Reconciliation to Gross Written Premiums ("GWP")



(\$ in millions)

	Three Months Ended June 30,		% Change versus 2Q-10
	2011	2010	
<b>Consolidated new business production analysis:</b>			
Present value of new business production ("PVP")			
Public finance - U.S.:			
Primary markets	\$ 36.0	\$ 72.7	(50.5)%
Secondary markets	8.8	8.7	1.1
Public finance - non-U.S.			
Primary markets	-	-	-
Secondary markets	-	0.7	-
Structured finance - U.S.	7.1	5.7	24.6
Structured finance - non-U.S.	-	2.1	-
Total PVP	<u>51.9</u>	<u>89.9</u>	(42.3)
Less: PVP of credit derivatives	-	-	-
PVP of financial guaranty insurance	<u>51.9</u>	<u>89.9</u>	(42.3)
Less: Financial guaranty installment premium PVP	<u>5.9</u>	<u>8.0</u>	(26.3)
Total: Financial guaranty upfront GWP	46.0	81.9	(43.8)
Plus: Financial guaranty installment PVP adjustment <sup>2</sup>	(29.0)	9.8	NM
<b>Total GWP</b>	<b><u>\$ 17.0</u></b>	<b><u>\$ 91.7</u></b>	(81.5)%

NM = Not meaningful

1. For an explanation of PVP, a non-GAAP financial measure, please refer to the appendix.

2. Represents present value of new business on installment policies plus GWP adjustment on existing installment deals due to changes in assumptions and any cancellations of assumed reinsurance contracts

# Appendix

## Reconciliation of Net Income (Loss) to Operating Income



(\$ in millions, except per share data)

### Reconciliation of Consolidated Net Income (Loss) to Operating Income<sup>1</sup>

	<u>2Q-11</u>	<u>2Q-10</u>
<b>Net income (loss)</b>	<b>\$(57.7)</b>	<b>\$203.5</b>
Less: Realized gains (losses) on investments, after tax	(2.8)	(4.3)
Less: Non-credit impairment unrealized fair value gains (losses) on credit derivatives, after tax	(70.0)	40.6
Less: Fair value gains (losses) on committed capital securities, after tax	0.4	8.2
Less: Foreign exchange gains (losses) on revaluation of premiums receivable, after tax	3.8	(19.0)
Less: Effect of consolidating financial guaranty VIEs, after tax	<u>(125.4)</u>	<u>6.0</u>
<b>Operating income</b>	<b><u>\$136.3</u></b>	<b><u>\$172.0</u></b>

### Per Diluted Share

	<u>2Q-11</u>	<u>2Q-10</u>
<b>Net income (loss)</b>	<b>\$(0.31)</b>	<b>\$1.08</b>
Less: Realized gains (losses) on investments, after tax	(0.01)	(0.02)
Less: Non-credit impairment unrealized fair value gains (losses) on credit derivatives, after tax	(0.38)	0.21
Less: Fair value gains (losses) on committed capital securities, after tax	-	0.04
Less: Foreign exchange gains (losses) on revaluation of premiums receivable, after tax	0.02	(0.10)
Less: Effect of consolidating financial guaranty VIEs, after tax	<u>(0.68)</u>	<u>0.03</u>
<b>Operating income</b>	<b><u>\$0.73</u></b>	<b><u>\$0.91</u></b>

1. The Company revised its definition of operating income in second quarter 2010 to exclude foreign exchange revaluation gains and losses on premium receivable. Three months ended June 30, 2011 are presented on consistent basis.

# Appendix

## Reconciliation of GAAP Book Value to Adjusted Book Value



### Reconciliation of Shareholders' Equity (GAAP Book Value) to Adjusted Book Value

(dollars in millions, except per share amounts)

	As of :			
	June 30, 2011		December 31, 2010	
	Total	Per share	Total	Per share
<b>Shareholders' equity</b>	\$ 3,950.0	\$ 21.44	\$ 3,798.8	\$ 20.67
Less after-tax adjustments:				
Effect of consolidating financial guaranty VIEs	(308.6)	(1.68)	(311.8)	(1.70)
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(1,035.2)	(5.62)	(764.8)	(4.16)
Fair value gains (losses) on committed capital securities	12.9	0.07	12.2	0.07
Unrealized gain (loss) on investment portfolio excluding foreign exchange effect	152.3	0.83	100.1	0.54
<b>Operating shareholders' equity</b>	<b>\$ 5,128.6</b>	<b>\$ 27.84</b>	<b>\$ 4,763.1</b>	<b>\$ 25.92</b>
After-tax adjustments:				
Less: Deferred acquisition costs	238.2	1.29	248.4	1.35
Plus: Net present value of estimated net future credit derivative revenue	353.3	1.92	424.8	2.31
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	3,824.1	20.76	4,059.6	22.09
<b>Adjusted book value</b>	<b>\$ 9,067.8</b>	<b>\$ 49.23</b>	<b>\$ 8,999.1</b>	<b>\$ 48.98</b>

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