

Why Standard & Poor's Draft Revisions to Bond Insurance Criteria Would Have a Negative Impact on U.S. Municipal Issuers



February 2011



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 or change in outlook 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 that AGL’s subsidiaries have insured, both of which have occurred in the past;
 - 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 world’s credit markets, segments thereof or general economic conditions;
 - more severe or frequent losses implicating the adequacy of Assured Guaranty’s expected loss estimates;
 - the impact of market volatility on the mark-to-market of its contracts written in credit default swap form;
 - reduction in the amount of reinsurance portfolio opportunities available to Assured Guaranty;
 - deterioration in the financial condition of our reinsurers, the amount and timing of reinsurance recoverable 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 from originators, sellers, sponsors, underwriters or servicers of residential mortgage-backed securities transactions;
 - decreased demand or 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 U.S. 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 February 1, 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.

The Impact of Standard & Poor's Ratings Services' (S&P) Proposed Criteria for Bond Insurers on the Municipal Market



- **When a financial guaranty insurer insures a security or other obligation, the insured obligation typically adopts the financial strength rating of the insurer.**
- **A change in the financial strength rating of a financial guaranty insurer impacts:**
 - The ratings of outstanding securities previously insured by the insurer
 - The value provided when the insurer insures new securities or other obligations, and
 - Narrows the range of issuers that can achieve savings through bond insurance
- **On January 24, 2011, approximately 90 days after assigning credit ratings of AA+ (Stable) to Assured Guaranty Municipal (AGM) and Assured Guaranty Corp. (AGC), S&P announced a proposal for revisions to bond insurance criteria that would significantly change its rating criteria.**
- **If adopted, these criteria will significantly increase the capital required to achieve high investment grade ratings, making it more expensive for issuers to buy insurance or even possibly eliminating the bond insurance product.**
 - S&P requested comments on the proposed revisions, setting a March 25, 2011 deadline for written responses.
 - The long comment period and subsequent implementation will cause considerable market disruption.
- **In 2010, AGM and AGC, the only active bond insurers, guaranteed 1,697 U.S. public finance new issues, totaling approximately \$27 billion of par.**

Fundamental Changes in S&P's Proposal that Affect Required Capital Levels

1. Addition of a new aggregate leverage test that acts as a cap on the overall rating

- Does not distinguish among risks of different quality, term or sector and does not consider all of our claims-paying resources (in particular, statutory unearned premium reserves are excluded)

2. Significant increase in the capital charges associated with municipal exposures in capital adequacy model

- Under the new criteria, depression losses have more than tripled from the previous level.
- Previous level was based on the 40-year-old Hempel study with 75-year old data originally published when debt burdens on municipalities were much higher than they are today.
- Recent default experience does not support increased capital charges.

3. Reduction in the single-risk limits for municipal exposures

- S&P's proposed limit for government obligation bonds (G.O.s), for instance, appears to be based on a 25% loss severity assumption, which compares with miniscule losses observed historically.

How Bond Insurance Creates Value in the U.S. Municipal Market



- **For issuers, bond insurance raises the rating of the underlying issue, thus achieving a lower cost of funds. Additional benefits include:**
 - Broader market distribution to investors who require a high investment grade rating in order to invest
 - Greater diversification in the borrower's name, as the insurer name creates a second "name category" for the issuer
- **Investors are willing to accept a lower interest rate on insured securities because bond insurance protects principal and interest when due and provides credit analysis, term negotiation, surveillance of the issue throughout its life, remediation if necessary, and market liquidity.**
- **If the S&P change in criteria for bond insurers results in new municipal bonds no longer being insured, interest rates paid by a significant number of municipal issuers would rise, adding more pressure to those municipalities already facing significant stress.**
- **The bond insurance value proposition is particularly important for smaller and lower-rated issuers:**
 - Investors, especially retail investors, find such issues difficult, if not impossible, to analyze and do not have the resources to follow their credit performance after issuance.
 - A lack of insurance would take away much of small issuer market access by dramatically decreasing retail liquidity.

Issuers within Many States Utilize Insurance on a Large Portion of their Transactions



2010 Transactions

- **AGM and AGC helped bring a significant number of municipal transactions to market at considerable interest rate savings.**
- **The majority of these transactions were issued by small and lower rated issuers (i.e. cities, towns and school districts) that would not have been able to access the market without insurance.**
- **AGM and AGC insured 1,697 bonds for issuers in 45 states and three territories, which represents 12.5% of the number of all new 2010 issues.**

Top 20 States/Territories by # of Insured Transactions	# of Insured Transactions	% Transactions within State
Pennsylvania	327	51%
Alabama	85	41%
Arizona	48	33%
Louisiana	27	24%
Utah	28	24%
Texas	295	23%
New York	169	23%
Rhode Island	7	21%
Puerto Rico	3	19%
Nevada	13	19%
Georgia	28	18%
Illinois	139	17%
California	135	16%
Tennessee	25	15%
Florida	38	14%
Michigan	49	13%
New Jersey	47	13%
Maine	5	11%
Oregon	13	10%
South Carolina	12	9%

Source: SDC. Includes transactions with partial insurance.

Issuers within Many States Utilize Insurance on a Large Portion of Their Par Volume



2010 Issuance

- **Over 20% of par volume within Arizona, Idaho, Alabama and Pennsylvania was insured.**
- **The average par amount of new issues insured by AGM and AGC in 2010 was \$15.8 million, demonstrating the significant service we provide to small issuers.**

States/Territories (with 9% or more insured issuance)	Insured Par (\$mm)	% of State's Par Insured
Arizona	2,154.1	35%
Idaho	205.0	27%
Alabama	861.5	22%
Pennsylvania	4,134.4	22%
Rhode Island	116.9	16%
Maine	132.6	14%
Florida	2,391.3	12%
Nevada	386.7	10%
Illinois	2,577.3	10%
Georgia	905.2	9%
Louisiana	597.6	9%

Source: SDC

Smaller Issuers Continue to Benefit from the Investor Diversification Insurance Provides



2010 Issuance

Deal Size	Total Par	Number of Deals	Insured Total Par	Insured Number of Deals	Insurance % of Par	Insurance % of Deals
Less than \$10mm	\$30,439.8	8,273	\$5,077.6	1,101	16.7%	13.3%
\$10.1mm - \$25mm	\$39,189.4	2,443	\$5,551.9	368	14.2%	15.1%
\$25.1 - \$50mm	\$40,238.1	1,147	\$3,821.1	116	9.5%	10.1%
\$50.1mm - \$100mm	\$58,645.8	821	\$3,464.7	54	5.9%	6.6%
>\$100mm	\$262,278.0	908	\$8,847.4	58	3.4%	6.4%
	\$430,791.1	13,592	\$26,762.7	1,697	6.2%	12.5%

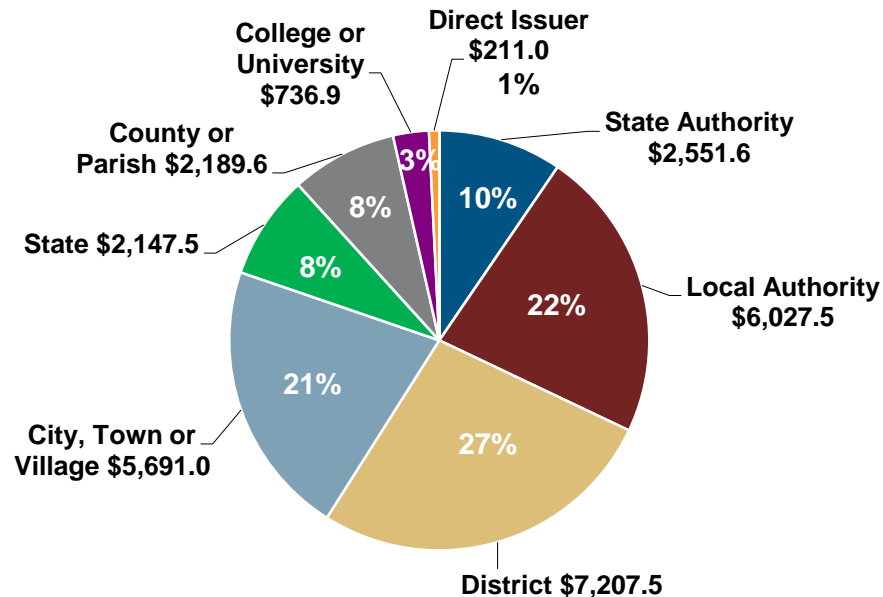
- **Insurance was utilized on more than 15% of par for deals \$25mm or less in size regardless of their underlying rating.**

Source: SDC

Insurance Benefits a Variety of Issuer Types



2010 Insured Volume by Issuer Type (\$MM)



- **11% of District issuance, including that from School Districts, utilized insurance.**
- **10% of all cities and towns, regardless of their underlying ratings, utilized insurance.**

Source: SDC

Note: Local authorities include entities, such as municipal utilities, improvement and airport authorities. Districts include schools, municipal utility districts (MUDS), parks and public community colleges.

“A” and “BBB” Category Credits Benefit Most from Insurance



2010 Issuance

Underlying S&P Rating	Total Par (mm)	% of Total Market	Insured Par (mm)	Insured Penetration at Rating
AAA	\$77,599.7	18.0%	\$0.0	0.0%
AA+	\$39,902.1	9.3%	\$22.8	0.1%
AA	\$66,195.3	15.4%	\$430.9	0.7%
AA-	\$58,831.0	13.6%	\$2,359.4	4.0%
A+	\$51,738.6	12.0%	\$8,441.9	16.3%
A	\$26,672.9	6.2%	\$4,416.2	16.6%
A-	\$25,557.0	5.9%	\$2,610.1	10.2%
BBB+	\$7,811.6	1.8%	\$1,003.3	12.8%
BBB	\$6,602.8	1.5%	\$338.3	5.1%
BBB-	\$8,599.2	2.0%	\$13.7	0.2%
BIG	\$1,053.0	0.2%	\$0.0	0.0%
NR	\$60,459.4	14.0%	\$7,160.7	11.8%
Total	\$431,022.7	100.0%	\$26,797.4	6.2%

- **15% of all “A” category bonds continue to save money through insurance.**
- **Approximately 45% of all “A” category debt for cities, towns and districts (including schools) utilized insurance to lower their debt costs.**

Source: SDC and Bloomberg. AAA underlying category includes uninsured bonds with AAA public ratings based on partial or full governmental support. NR may include bonds that are only rated by other agencies.

Small Issuers Benefit the Most from the Availability of Insurance



- **AGC and AGM enhanced 1,469 transactions that were \$25 million or less in size for \$10.6 billion of aggregate par in 2010.**
- **On these smaller transactions, it is estimated that we saved issuers approximately \$75 million in interest cost on a present value basis.**
- **About 75% of these bonds were for cities, counties, school districts and other taxing districts.**

Corporate Overview and Update



- Assured Guaranty Ltd. (“AGL” and together with its subsidiaries “Assured Guaranty” or “the Company”) is the leading financial guaranty franchise**
 - We are the only long-standing financial guaranty company still writing new business today
 - We have maintained financial strength ratings acceptable to the market
- Assured Guaranty’s sole focus is financial guaranty**
 - Publicly traded holding company (NYSE: AGO) with extensive quarterly financial disclosures providing transparency to all investors
 - 20+ year track record in financial guaranty market
 - Two principal financial guaranty direct subsidiaries and one financial guaranty reinsurance subsidiary
- Strong capital base**
 - Consolidated investment portfolio of \$10.7 billion as of September 30, 2010
 - Consolidated claims-paying resources of \$12.8 billion as of September 30, 2010
 - In December 2009, issued 27.5 million common shares, raising net proceeds of approximately \$574 million
- Assured Guaranty acquired Assured Guaranty Municipal Corp. (“AGM”), then known as Financial Security Assurance Inc. (“FSA”), on July 1, 2009, when it acquired, from Dexia SA (“Dexia”), Assured Guaranty Municipal Holdings Inc. (“AGMH”), which was then known as Financial Security Assurance Holdings Ltd. By doing so, it acquired the only other active legacy financial guaranty company.**

(\$ in billions)	Assured Guaranty Ltd. (9/30/10)
Net par insured	\$628.1
Total investment portfolio	\$10.7
Claims-paying resources	\$12.8

	Moody’s (rating/outlook)	S&P (rating/outlook) ¹
AGC	Aa3 / negative	AA+ / stable
AGM	Aa3 / negative	AA+ / stable

1. On January 24, 2011, S&P published a request for Comment: Bond Insurance Criteria (“Bond Insurance RFC”) in which it requested comments on its proposed changes to its bond insurance ratings criteria. In the Bond Insurance RFC, S&P notes that it could lower its financial strength ratings on existing investment-grade bond insurers (including AGM/AGC) by one or more rating categories if the proposed bond insurance ratings criteria are adopted, unless those bond insurers (including AGM/AGC) raise additional capital or reduce risk. Reference is made to the Bond Insurance RFC, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

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