



**Transcript of Assured Guaranty Ltd.
Earnings Conference Call**

May 11, 2012

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Managing Director of Investor Relations and Corporate Communications

Good morning and thank you for joining Assured Guaranty for our first quarter 2012 financial results conference call. Today's presentation is made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. It may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results, future reprints and warranty settlement agreements or other items that may affect our future results.

These statements are subject to change due to new information or future events, therefore you should not place undue reliance on them, as we do not undertake any obligation to publicly update or revise them, except as required by law.

If you're listening to the replay of this call or if you are reading the transcript of the call, please note that our statements made today may have been updated since this call. Please refer to the Investor Information section of our website for our recent presentations, SEC filings, most current financial filings, and for the risk factors.

In turning to the presentation, our speakers today are: Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Limited, and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to questions.

As the webcast is not enabled for Q&A, please dial in to the call if you would like to ask questions.

I would now turn the call over to Dominic.

Dominic Frederico
President and Chief Executive Officer

Thank you Robert, and thank you all for joining Assured Guaranty for our first quarter 2012 earnings call.

During the quarter, once again, Assured Guaranty delivered positive operating results in a tough macroeconomic environment. We have done this consistently during both the recession and its choppy recovery through a successful combination of writing new business and executing alternative strategies to create shareholder and policyholder value.

I am also pleased to announce that as one of the main components of those alternative strategies, we have finalized a settlement with Deutsche Bank that I had alluded to on a prior call. Deutsche Bank is the second major financial institution that we have settled with in little more than a year. This agreement further strengthens our balance sheet by providing a substantial cash payment and provides certainty related to RMBS developments due to a loss-sharing arrangement on future claims. With this agreement, we have now reached favorable settlements with respect to approximately 37% of the remaining par outstanding of our troubled obligations in Assured Guaranty's legacy residential mortgage insured portfolio — a critical statistic relative to our capital adequacy or financial strength, which should have a significant positive impact for Moody's and S&P's ratings evaluation.

Two other prominent, alternative strategic events occurred in the first quarter. First, we completed a transaction with Radian Asset Assurance in which we reassumed \$12.9 billion of par previously ceded to Radian; assumed and additional \$1.8 billion par of Radian direct public finance exposures; and agreed to acquire the bond insurance company Municipal and Infrastructure Assurance Corporation, which gives us additional flexibility to respond to future challenges or opportunities in the financial guaranty industry. In another similar transaction, we reassumed \$6.2 billion par of insured public finance business from Tokio Marine. These two transactions captured \$20.9 billion of par insured, an amount equal to 124% of our 2011 production. A remarkable result that significantly mitigates the impact of reduced new business activity in the current market.

In terms of our new business production, total first-quarter 2012 PVP increased 7% over that of first quarter 2011. In looking at our public finance activities including the business assumed in the Radian transaction, PVP increased by 54%. Further, we materially increased the total municipal par amount we insured in the first quarter of this year versus last year's comparable quarter – up 118% when including the direct assumed par in the Radian transaction and up 37% excluding the Radian assumption.

In the municipal new-issue market, we insured 12% of all new municipal transactions and 5% of the par sold during the first quarter of 2012. More importantly, in our target market – which is new U.S. municipal issues of single-A underlying credit quality – we insured 37% of the transactions sold and 18% of the par sold in the quarter, both of which are higher levels than in the first quarter of last year.

These results confirm the continuing fundamental demand for bond insurance, and we accomplished them with continued downward pressure on our ratings, average yields at an all time lows and tight credit spreads. Additionally, current market conditions have created an environment where many investors are

unwilling to give up even the slightest amount of yield and therefore are foregoing insurance while at the same time issuers are still able to borrow at historic low rates. Despite these pressures we continue to maintain new-issue premium rates in line with those of a year ago, while improving the average credit quality of our new direct new originations from A-minus to single-A flat.

Interestingly in the first quarter, 7% of our public finance insured par was for issuers rated in the AA category by Moody's. This proves that bond insurance can add value even when it does not elevate an issuer's rating. This is because investors value Assured Guaranty's selection, underwriting, surveillance and the certainty of payment our guarantee provides. I believe this is a critical fact that Moody's must consider as they continue to express their concern about future demand for financial guaranty insurance.

In structured finance, we continue to work with large financial institutions to provide credit protection for selected assets, and we closed another transaction during the quarter. In international business, we have made progress on our objective to replace other guarantors on outstanding infrastructure transactions following our successful fourth quarter Ambac replacement transaction. We expect to see increased production from both of these areas over the course of this year.

Turning to our ratings, on March 20, Moody's placed Assured Guaranty and its subsidiaries' ratings under review for possible downgrade. A week later Moody's published credit opinions on AGM and AGC with Financial Strength Rating Scorecards reflecting a strong Aa rating for each of those companies. On April 26, Moody's published a very negative Industry Outlook on the financial guaranty industry citing "low insured volume and meaningful remaining risks from legacy portfolios" for an industry that they say, quote, "has not recovered from the financial crisis."

It's true that some of the other bond insurers have "not recovered from the financial crisis," but that does not apply to Assured Guaranty. We have not just, as Moody's writes, "survived" the financial crisis but have demonstrated our resourcefulness, financial strength and ongoing viability. Moody's action, as it relates to Assured Guaranty, is not supported by facts in light of our strong earnings; increased capital; the reduction in our insured leverage; another rep and warranty settlement resulting in 37% of our par outstanding on troubled RMBS transactions now subject to favorable settlement agreements; and our penetration in the A-rated issuer market.

On April 13, 2012, we published a response to the Moody's announcement that is available on our website. The statement explicitly measures Assured Guaranty's performance relative to each of Moody's financial guaranty insurance industry metrics. I urge you to read it. It shows that, by applying Moody's own Financial Strength Rating Scorecard to Assured Guaranty's financial guaranty subsidiaries, we have met Moody's own criteria for strong Aa ratings – just as Moody's itself concluded in their March 26 Credit Opinions.

The review of Assured Guaranty that Moody's announced on March 20 cites concerns about origination volume and future margins as reasons for a potential downgrade. We continue to question the relevance of these two factors in evaluating the financial strength of an insurance company – especially one that is in an industry with significant deferred revenue. We cannot comprehend what new business prospects have to do with the probability of our default or our ability to pay claims on our existing portfolio. Future views of business activity or profit margins are directly related to an equity investor's evaluation, which I do not believe is what the market expects from Moody's or is relevant or beneficial to our policyholders. The Assured Guaranty companies currently have recorded approximately \$6 billion of deferred revenue, which provides a solid base of future earnings that offers strong protection against any financial disruption caused by a temporary lack of current production due to a low interest rate environment and

tight credit spreads. We are well positioned to address current market opportunities prudently and are not pressured to insure risks outside of our strict requirements.

In their industry outlook Moody's also expressed a concern that distressed municipal issuers may choose to strategically default on insured debt obligations. However, they provided no data to support such a broad claim, and we have seen no evidence supporting such a trend in our portfolio or across the industry. Moreover, Moody's own recent report on municipal defaults does not support this assertion. I encourage you all to listen to Moody's call regarding the industry outlook, many of the questions raised by the callers highlighted Moody's ambiguous emphasis on this assertion, and Moody's was unable to provide any further support or defense for this or the inordinate emphasis on market share. If you have not heard, I encourage all of you to listen to the replay which is available until Monday to get a better view of how many objections Moody's received regarding their flawed premises.

Despite the significant challenges we have faced since the onset of the Great Recession, Assured Guaranty has implemented effective strategies to provide value to issuers and to honor our commitments to bondholders. Our claims-paying resources increased by almost 17% since the end of 2007, ending first quarter 2012 at over \$13 billion despite our paying over \$4.3 billion in insured claims over that period. Furthermore we have recovered over \$2.7 billion of losses on RMBS securities; produced over \$1.7 billion of operating income; insured over \$75 billion of municipal bonds in the last three years; signed two loss sharing agreements that mitigate future RMBS losses; and significantly reduced aggregate leverage since the second quarter of 2009, reducing our insured portfolio's exposure by approximately \$96 billion. The \$96 billion overall reduction included \$85 billion in structured finance, of which \$11 billion was U.S. RMBS. These strengths and achievements, especially during the recent global crisis, are indicative of a strong Aa rated company.

In turning to our RMBS loss mitigation efforts, Bank of America and Deutsche Bank have set a good example for rep and warranty providers by reaching a negotiated agreement with us on rep and warranty claims. Unfortunately, other rep and warranty providers such as Credit Suisse have been unwilling to negotiate resolutions of these same disputes.

Of course, we are also continuing to pursue other opportunities to limit future losses through servicing interventions. On transactions where we have already transferred servicing or imposed special servicing contracts, we continue to see significantly better collateral performance than industry norms.

Before I turn the call over to Rob, I'd like to re-emphasize that we are confident about the strength of our financial resources; the benefits of our product for both issuers and investors; and our strategies for building shareholder value.

I will now turn the call over to Rob Bailenson for more details on first quarter financial results.

Robert Bailenson
Chief Financial Officer

Thank you Dominic, and good morning to everyone on the call. As always, I refer you to our press release and financial supplement for explanations and reconciliations of the non-GAAP financial measures that I will reference in my commentary.

Before I begin my discussion of the quarterly financial results, I would like to give you more detail on the Deutsche Bank Agreement which was signed earlier this week. Because we anticipated reaching a settlement with Deutsche Bank that is consistent with the final economic terms of the agreement, substantially all of this rep and warranty benefit was incorporated into our loss development in 2011.

In connection with this settlement, we received \$166 million in cash, and going forward, Deutsche Bank will participate in a loss sharing arrangement. Their obligation under the loss sharing arrangement is collateralized by assets in an amount necessary for Assured to receive full rating agency capital credit under their stress loss scenarios. The deal with Deutsche Bank is another major accomplishment in our loss mitigation strategy. Of the \$1.6 billion total net rep and warranty benefit recorded, \$840 million is now collateralized and covered by loss sharing arrangements; which leaves only \$790 million of rep and warranty benefit that is not yet covered under a contractual arrangement.

Turning now to the financial results, it is worth noting that despite challenges in the global economy, in the first quarter of 2012 we earned \$71 million of operating income, or \$0.38 per share. Adjusted book value increased to \$49.37 per share, and operating shareholders' equity increased to \$28.83 per share.

Our first quarter results were impacted by 3 items:

The first two items were the assumption and re-assumption agreements with Radian and Tokio Marine, which resulted in total payments to the Company of \$210 million. These agreements increased our adjusted book value by \$139 million and resulted in after tax commutation gains of \$54 million. The revenue generated by these two agreements are equivalent of almost $\frac{3}{4}$ of our 2011 new business production.

The third item that affected our quarterly results is related to the developments in Greece. The sovereign debt that we insured was assumed in the acquisition of FSA. First quarter 2012 operating income includes \$189 million of losses incurred related to our guaranty of Greek debt, which represents a full limit loss and puts this issue behind us. This was the largest single component of the \$212 million in total economic loss development.

U.S. RMBS contributed \$17 million to the total economic loss development in the first quarter. Because early stage delinquencies for certain classes of U.S. RMBS insured obligations continue to improve slowly, the Company increased its expected losses. This increase was substantially offset by improvements in the benefit for reps and warranties and the effect of increased discount rates.

The effect of increased discount rates on the first quarter loss development was a decrease of approximately \$41 million. As we've discussed in the past, the development attributable to changes in the risk free rates used to discount losses is not indicative of any credit improvement or impairment, nor is it reflective of our own investment yields.

The other major drivers of operating income are generally in line with our expectations.

Premiums and credit derivative revenues declined consistent with the amortization of par and unearned premium reserve.

Net investment income was down slightly due mainly to higher prepayment speeds and lower reinvestment yields. The pre-tax book yield on the investment portfolio was 3.96% at March 31, 2012, compared with 4.00% at December 31, 2011.

Operating expenses were relatively flat, year over year. The first quarter of each year includes accelerated vesting expenses for long term incentive compensation awards that are granted at the beginning of each year. For each of the remaining quarters of 2012, I expect operating expenses to be between \$50 and \$55 million.

The effective tax rate on operating income varies from quarter to quarter due to the amount of income in different tax jurisdictions, and was 18% for the first

quarter 2012. I expect our operating effective tax rate for 2012 to be between 20-24%.

I'll now turn the call over to our operator, to give you the instructions for the Q&A period.

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Geoffrey Dunn of Dowling & Partners. Please go ahead.

Geoffrey M. Dunn

Thanks, good morning.

Dominic Frederico

Good morning, Geoff.

Rob Bailenson

Good morning.

Geoffrey M. Dunn

On the Greece loss, you obviously took a full limit loss there, has that already been settled with the counter party or is there room for negotiation as that counter party doesn't want the long term exposure to AGL?

Dominic Frederico

Well, it has not been settled. There is always room for negotiation but understand, they're not going to have the long term credit of AGO, because we're going to call the bond and settle that 100%.

Geoffrey M. Dunn

Okay. And then second on Moody's, is there back and forth discussions going on between AGO and Moody's or is this kind of they put out what they put out and it's kind of a battle just to even see the capital models et cetera. Is there other active helpful discussions or is it kind of some of the things we're seeing in the past?

Dominic Frederico

Well, Jeff, I would tell you that as Moody's has to go through their rating process, there is a tremendous amount of dialog as we exchange information, respond the questions and provide more clarity. Number two is they start to provide us capital information in terms of how they assess the risk in our portfolio. We obviously go through our own verification and make sure they've got the deal structure right, the par amounts right, et cetera and that dialog continues ad infinitum and is ongoing as we speak today.

Geoffrey M. Dunn

Okay, great. Thank you.

Operator: Our next question comes from Brian Meredith of UBS. Please go ahead.

Brian R. Meredith

Yeah, good morning. A couple of quick questions here for you. The first one Robert, if you could just tell a little bit any P&L or balance sheet impact from the Deutsche transaction in the second quarter?

Dominic Frederico

That will really depend on whether we do anything with loss reserves, there was a slight change in our benefit to our loss sharing at a different layer to structure that theoretically could have some minor implications for change in the number, but historically as we enter into these negotiations, Brian, we have a very

conservative number book prior to engaging in detailed negotiation and settlement discussions.

As those discussions progress, we typically look at what is the value of the offer on the table and began to make sure that we're catching up our accrual or our credit against where the negotiations are by and large at any point in time.

So, as these things and, of course, as you've seen in the Deutsche Bank case, as they drag on for quite a long time, more around terms and conditions in the legal agreement as opposed to the financial sharing structure on losses, we continue to update or revise our estimated recovery.

Brian R. Meredith

Got you. Any other that you're close on?

Dominic Frederico

I'll leave that as it is.

Brian R. Meredith

Okay. And I'm just curious when you extended the curve a little bit here, what is that due with respect to your capital question for S&P, did it matter much?

Dominic Frederico

It really does and as you look at the results and we kind of publish them. I think it's well covered and obviously there is a lot of public information; you can make a lot of different arguments as to the extension or not in the course of – especially across the different aspects of RMBS. We obviously tried to maintain a very conservative position, because we don't know – we don't know and obviously the recovery has taken a lot longer than anyone ever and envision especially the U.S. real estate market and therefore we continue to monitor closely.

We have a very disciplined approach to how we look at the reserves. They're very much predicated or keyed-off of early stage delinquencies and you can kind of follow this from home or keep score at home as they say the old ball game, in terms of the numbers that we put up. But relative to S&P, this is not a significant activity, because remember they're assessing us based on their stress loss levels. And obviously that's not affected by any changes in our reserves.

Brian R. Meredith

Great. Thank you.

Operator: Our next question comes from Matt Howlett of Macquarie. Please go ahead.

Matt Howlett

Okay guys. Thanks for taking my question. Dominic, on the R&W benefit, the \$800 million or just short of the \$800 million that you haven't collected yet, is that – can we assume that basically evenly split between the likes of UBS and Credit Suisse, or are there other major parties in there?

Dominic Frederico

Well – there are two major parties and a whole host of minor parties and I think the smallest asset we might have up for any given party might be in the \$10 million range. So, it is spread across probably six to eight more counterparties, but two of them are major, then you've got two kind of sub-major, one's – obviously, one is this – one that we're going to quote on June 11, Flagstar Bank. So, it's diverse, no one represents, I guess more than 50% of the asset today, if I had to guess.

Matt Howlett

Great. Got you. And then, in terms of loss mitigation, you obviously – the settlements have been the biggest driver of those – could it go beyond, I think you

guys talked about – you paid out over \$4 billion in claim over the last several years. And could it go beyond that? Could you end up recovering some of that back over time? Could you – do you still have the ability to buyback the bond debt at a discount rate and as well as changing servicing like you said?

Dominic Frederico

Yeah, all of the above and remember even in the Deutsche Bank settlement, we received \$160 million odd of cash this week, which theoretically represents reimbursement of previously paid and incurred losses that went through our P&L.

Matt Howlett

Got you.

Dominic Frederico

So, there is further opportunity for collecting some of that \$4 billion plus of paid losses number one. Number two, we continue to look into the market as another way to mitigate or diffuse losses by buying back the insured securities when they're offered, for whatever reason, at discounts. And obviously, we've been very active in that market. I think, as of the end of the first quarter, we bought back about \$1.7 billion of that risk on a par basis a bit about \$800 million for it, gross. So, that would imply a \$900 million saving.

Matt Howlett

Got you. Great.

Dominic Frederico

Also, as a part of our loss mitigation, we still are continuing to look at servicing enhancements to drive down or to improve the performance and we really haven't, as I said in previous calls, scratched the surface of service reliability. We've been going after the originator and securitizer as our first line of recovery,

but obviously as you look to the market today and see where a lot of litigation is involved, a lot of it involves servicer reliability.

Matt Howlett

Got you. So that's another opportunity to look at that side of the equation. And then, you just switched it and re-began – how the conversation – I know you obviously want to be AA at the entire company, but have you talked to them about just a segment of the company? I know you bought MIAC from Radian that could possibly just be AA or splitting the company apart. I mean, are you looking at that? And then two, there must be some – even if you go to A or A1, there must be a path back to AA, it must tell you how you can get back there other than just waiting for the industry to turnaround?

Dominic Frederico

A couple of statements. One, I'm still highly confident in the ratings of the company to be at a minimum AA and I see no rationale that would cause an answer to be beyond that. To the extent that Moody's continues to make an issue out of market share, well under any company scenario in today's market of where the insurable marketplaces, where interest rates are, where people are still able to basically borrow at historical low rates, where spreads are, the amount of business opportunities going to be muted in this economy, but it doesn't stay that way forever and you really need to rate through a cycle as opposed to just bury yourself in the middle of one. So first and foremost, I believe that the rating should be comparable to strong AA and that's exactly how we grade out. As a part of that then it really doesn't become a capital issue. So, you can say was there a recovery back, unless we're going to see real interest rates return to the market, we see more ratings migration to put more issuers down to our insurable range of A to high BBB, we're going to be stuck in this kind of low production environment, but thankfully for the company, we have the ability to look at other ways to enhance economic value and this quarter is a great example of how we can creatively – as Rob talked, we took three quarters of our premium from last year in

two transactions. We took 124% of the par. Obviously, we have ways to respond, but most importantly with \$6 billion of deferred revenue, we can sit here and kind of be very prudent and where we put our capital to work in this marketplace where you should be a little cautious and therefore to go chase market share would make absolutely no sense. So, when you look at this whole ratings issue, if it was a capital issue, we'd solve it. If it was a portfolio issue, we'd solved it. Give us something quantitative and I think the company has shown its resourcefulness in terms of how it can address any challenge. But if it's something that is truly – something indicative more of the market and the marketplace and plays to our prudent underwriting standards, well there is nothing we're going to be able to do about that. And hopefully the market will continue to make their voices heard to Moody's regarding this fascination with market share that really should not apply.

Matt Howlett

Got you. Just to follow on that – are there any regulatory bodies like the New York State Insurance Commissioner or are they sort of monitoring developments, are you in conversations with them or someone in Washington on the lack of transparency for Moody's?

Dominic Frederico

Well, I think, like anything else, we would be not doing our duties if we're not reaching out to all constituents, all potential regulatory bodies to ensure that they're aware of the activity that's going on. So, you can assume that those conversations are taking place.

Matt Howlett

Great. Thanks, Dominic.

Dominic Frederico

You're welcome.

Operator: Our next question comes from John Helmers of Swiftwater Capital. Please go ahead.

John B. Helmers

Hey, guys. Thanks for taking my questions, just following up on the last question. I don't think you touched on it, Dominic. Is there any added flexibility related to the purchase of the Radian vehicle, because it does seem like there is – you might even do better than AA without having any of the legacy issues and again I don't understand fully the constraints, but given, as you said, the capital's no issue and given the massive discount that the stock trades to the NAV currently, why not – if that's a – if you have that flexibility, why not focus on buying back the stock more actively and then use – capitalize with a certain amount this new entity at a level that you would think would be indisputable by Moody's?

Dominic Frederico

Well, we have two valuable franchises out there that we very much like and support and believe we're deserving of very high ratings. Be that as it may, to your question, sure, one of the reasons why we enter the Radian transaction in addition to the recapturing of this business and building up further economic value was, of course, having a 30- plus license company all dressed up and ready to go and that still remains a strategic option of the company, but I will caution you once again, if Moody's says this is market share, that company starts out with zero. And it will not be able to generate much more market share and potentially very much less than we're currently being able to achieve with the two absolute strongest franchises in this industry, two franchises that still garner strong AA ratings in a market where very few financial institutions have such a high rating. So if it's market share, a new company with great capital, a pristine balance sheet and a purely clean portfolio, still doesn't get me there.

John B. Helmers

So there would be no benefit from the – obviously the backing of the two entities that, like, I mean we both agree should be AA. So, I guess what you're – what one would hope is that you could get the benefit of the one and the benefit of the other?

Dominic Frederico

Yeah, the one thing we've left out, remember, right now we are talking specifically based on Moody's view of rating and rating criteria. That doesn't mean that the new company would have to carry a Moody's rating and that's all I will say on that issue.

John B. Helmers

Noted. Understood. And then, and I assume that on buybacks which seem clearly to be compelling at these prices, you are waiting on clarity from Moody's before you are more aggressive with your excess capital?

Dominic Frederico

I think we'd like to wait on clarity but as we get further information relative to the capital adequacy and this does not become a capital issue, obviously then that leaves us with a different decision.

John B. Helmers

Thank you very much.

Dominic Frederico

You're welcome.

Operator: [Operator Instructions] Our next question comes from Andrew Kleinberg of Glickenhause. Please go ahead.

Andrew Kleinberg

Good morning, and thank you for taking my call. I'd like to revisit my question from six months ago. It's what I call the AGO quandary, which is with an operating book value over \$20 and adjusted book value over \$45, and the stock price of \$13 and change why not go into runoff and make extremely accretive stock buybacks? Your response back in November was, well, it goes back to the age-old question in terms of what we are trying to achieve. We're trying to achieve what we believe is long-term value creation. We believe, based on our preferred position in the market, our ability to demand pricing and terms that's an opportunity that one doesn't walk away from easily and we believe our goal of attaining AA rating stable through the end of this year is achievable. But, like any other strategy that's subject to continued reevaluation and we will reevaluate it at the appropriate time. We do see the same thing you see in terms of accretive opportunities relative to the stock price against both operating and adjusted book value and we try to affect those transactions when we think it's appropriate. But, at this point in time and with plenty of time to make further evaluations and decisions, if that changes into the future, we still think this the best course of action.

Dominic Frederico

Andrew, that's a great answer. Thank you very much. Hopefully, you're quoting me. But, I actually like it when you replayed it that way so....

Andrew Kleinberg

Okay. It is you from back in November.

Dominic Frederico

Okay. I sound a lot better than when somebody else reads my own...

Andrew Kleinberg

Well, you're more articulate than you realize and maybe sometimes when you hear it back over the phone it comes through. But, since that response was given, the very time-consuming and seemingly never-ending battle with rating agencies has continued and the possibility of having to appease them is very worrisome to shareholders in terms of optimizing capital and missing opportunities. Secondly, the penetration of the muni market, which was over 50% in 2007, has never – has not gotten much better from a level that's less than a quarter of that now. And, now there is a new entrant into the business and another supposedly on the way. Third, the new lines of businesses that you want to replace the muni shortfall appear to be riskier lines outside of the traditional experience and where the historical default data is not as benign as exemplified by today's Greek write-downs. My two part question today is at what stock price does going into runoff trump your current long-term value creation strategy? Whether it's \$10, \$5 or \$2; for \$2 you could buy the whole company for \$400 million. What price is it? And, just as importantly, as CEO of this firm, will you be able to make the very difficult decision to go into runoff if it's in the best interest of shareholders despite it not necessarily being in your own best interests?

Dominic Frederico

Well, I'll take the second quarter first.

Andrew Kleinberg

Okay.

Dominic Frederico

So, as a significant personal shareholder, where a significant amount of my wealth is tied up in the security of the stock of this company, I have the same interest you do, and my children definitely have the same interest you do. So, I don't think of it any differently than you do. The second thing is, when you say at what price you go into runoff, I hate to tell you this but I don't think there is any

price that you would ever consider write-off – a runoff rather. That doesn't mean that you will not downsize the capital relative to the business opportunity and we have to be cognizant of that challenge that we face, and we have to make sure that we are planning the proper amount of liquidity, free cash, et cetera that we can affect that strategy because all of us understand that, in this marketplace of where opportunities are, you're not going to be able to write enough new business to support the capital base and we focus on that thing called ROE. We all struggled with the size of the "E" and we all appreciate that that "E" has to come down over time and when it's the most opportunistic and accretive opportunity to do that, we do have a share repurchase authorization out there today that we can use and, obviously, we look forward to those opportunities to when we're going to start executing on that share repurchase.

I think what you're saying, what we're saying is pretty much the same; it's a matter of timing, execution, and degree. We say in a market where interest rates are today, if anyone believes that the interest rate environment that we have today is going to last forever, then you're exactly right. This market will be a \$40-million to \$60-million-a-quarter market and that's our life going forward. And, hey, that would be okay, writing about \$200 million to \$250 million as long as your capital base makes sense relative to that. And at that level, if you look at who is our client today, well, you have to say to yourself, over the last, say, two years we've gone through nothing but ratings issues and ratings challenges. Yet, there is a core level of issuers that have still come out and bought the insurance. Why? Because they need that second name on their issuance based on their size or recognition in the market to be able to get that access. That hasn't changed. It's been very resilient. We continue to book roughly at the same percentage of A-rated.

What's the challenge of today in terms of total volume is if you go back to 2006 when we were all AAA, there was only 7% of the market that was AAA at the time. So, theoretically, they were the only people that were principally outside of an insurable opportunity. Today that percentage is like 61%. It went from 7% to 61%

of what then is really outside the insurable market. Do I expect that to stay the same forever? Absolutely not. So, do I try to manage at the worst end of the cycle and make decisions and judgments? Or, do I say, hey, there is a normal cycle out there; do we have the financial strength to continue to fly through this? Absolutely. Do we continue to make reasonable returns on earnings? Absolutely. Do we need to start taking down the capital? Absolutely. And, when does that need to start taking place? But, as you read very eloquently my response from last year, I don't think we've given up any opportunity as we look at the company today. And, what we accomplished over the last year, think, is significant. The buying back of all of these insured securities, would you be able to do that? Maybe, maybe not. If you're providing the cash to the buyback of securities, maybe you wouldn't have enough cash to buy back these opportunities relative to the insured securities. And, I'll tell you we've done the analysis of what is more accretive, and when you look at just the number I gave you, if you bought \$1.7 billion back for roughly \$800 million, you embedded a \$900-million gain; that's pretty good for a shareholder and I think they'd be very happy if that's how we're using our excess cash at this point in time.

But, you're right. We're challenged by the market and we have to continue to evaluate this. This is a very dynamic process and every day we've got to take a hard look at what is the opportunity of that day and what should be the best decision. But, to say we're not doing it or to allude that there is a better interest of the shareholder that maybe we're ignoring, I think that's kind of unfair because most of us here are pretty significant shareholders. And, therefore, we do have that interest at heart.

Andrew Kleinberg

Thank you.

Operator: Our next question comes from Frank Donnelly of Dalton Partners. Please go ahead.

Frank N. Donnelly

Thanks for taking my call. Dominic, we're long-term shareholders, and I just want to expand on the previous call for a moment. I think your team – you and your team have done an excellent job in navigating a very, very difficult environment and I can't be more pleased with the way you've managed the company. We all know the company is significantly undervalued. I was just wondering if you could frame or if you've had discussions with the board, I'm sure you have, frame the pros and cons of another alternative taking the company private. I know you've talked just previously about the runoff; I don't think that's viable because I think the environment will change meaningfully down the road. But that could be a long way and shareholders are sitting here with the stock that's, a security that's significantly undervalued with an environment that doesn't seem to get better from a regulatory standpoint or even from the rating agencies, just last night you see the overreaction in our opinion of the JPMorgan news. But that's the world that we live in and it's hard to see it changing any time soon, so if you could just talk about the pros and cons of taking it private or if that was ever an idea that's been discussed with the board? Thank you.

Dominic Frederico

Okay. All I can say to you is as we look at the challenges and the opportunities and hopefully and we're quite grateful for your comments. You have to consider that this management team is pretty good, pretty creative and pretty resourceful and that you would hope and hopefully that you believe in it that there isn't any stone that we do not at least turned over and examined very closely. So, I think much like the previous caller, it's a dynamic process. We try to be as creative as we can be, and as resourceful as we can be and look at all possible alternatives. Some are at early stages of development, some are at later stages – there was a big discussion on the purchase of MIAC and how we view that, if you can understand obviously, there has been a whole lot of work done here in getting that ready to launch if we determine the best course of action, who rates it, what type

of rating could it get. In a similar way, you can consider that we've evaluated and continue to evaluate other opportunities, but obviously I am not at liberty to discuss any in-depth dialogue that we might have had on that topic.

Frank N. Donnelly

Thank you.

Dominic Frederico

Thank you.

Operator: And this concludes our question and answer session. I'd like to turn the conference back over to management for any final remarks they may have.

Robert S. Tucker

Thank you, operator. I'd like to thank everyone for joining us on today's call. If you have additional questions, please feel free to give us a call. My number is listed on the press release. Thank you very much.