ASSURED GUARANTY LTD
Form 10-Q
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2012

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**98-0429991**
(State or other jurisdiction of incorporation)	(I.R.S. employer identification no.)

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(Address of principal executive offices)

(441) 279-5700

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of registrant s Common Shares ($0.01 par value) outstanding as of May 1, 2012 was 182,592,088 (includes 57,435 unvested restricted shares).

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Assured Guaranty Ltd.

Consolidated Balance Sheets (Unaudited)

(dollars in thousands except per share and share amounts)

	As of March 31, 2012	As of December 31, 2011
Assets		
Investment portfolio:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost of $9,659,413 and $9,638,404)	$ 10,204,938	$ 10,141,850
Short term investments, at fair value	903,363	734,046
Other invested assets	203,900	222,869
Total investment portfolio	11,312,201	11,098,765
Cash	182,003	214,544
Premiums receivable, net of ceding commissions payable	1,018,672	1,002,852
Ceded unearned premium reserve	631,398	708,872
Deferred acquisition costs	129,015	132,418
Reinsurance recoverable on unpaid losses	152,898	69,300
Salvage and subrogation recoverable	367,343	367,718
Credit derivative assets	463,556	468,933
Deferred tax asset, net	1,031,805	803,529
Current income tax receivable	50,317	76,430
Financial guaranty variable interest entities assets, at fair value	2,827,652	2,819,077
Other assets	337,953	262,222
Total assets	**$ 18,504,813**	**$ 18,024,660**
Liabilities and shareholders equity		
Unearned premium reserve	$ 5,839,223	$ 5,962,799
Loss and loss adjustment expense reserve	954,475	679,011
Reinsurance balances payable, net	204,173	170,982
Long-term debt	1,034,667	1,038,302
Credit derivative liabilities	2,416,268	1,772,803
Financial guaranty variable interest entities liabilities with recourse, at fair value	2,365,177	2,396,945
Financial guaranty variable interest entities liabilities without recourse, at fair value	1,085,618	1,061,497
Other liabilities	422,694	290,756
Total liabilities	**14,322,295**	**13,373,095**
Commitments and contingencies (See Note 12)		
Common stock ($0.01 par value, 500,000,000 shares authorized; 182,524,573 and 182,235,798 shares issued and outstanding in 2012 and 2011)	1,825	1,822
Additional paid-in capital	2,569,526	2,569,922
Retained earnings	1,208,380	1,707,922
Accumulated other comprehensive income, net of tax of $149,205 and $135,344	398,387	367,499
Deferred equity compensation (320,193 shares in 2012 and 2011)	4,400	4,400
Total shareholders equity	**4,182,518**	**4,651,565**
Total liabilities and shareholders equity	**$ 18,504,813**	**$ 18,024,660**

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Operations (Unaudited)

(dollars in thousands except per share amounts)

	Three Months Ended March 31,	
	2012	**2011**
Revenues		
Net earned premiums	$ 193,677	$ 253,977
Net investment income	97,762	97,412
Net realized investment gains (losses):		
Other-than-temporary impairment losses	(27,344)	(6,947)
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	(22,465)	(2,369)
Other net realized investment gains (losses)	6,195	7,384
Net realized investment gains (losses)	1,316	2,806
Net change in fair value of credit derivatives:		
Realized gains (losses) and other settlements	(56,881)	35,427
Net unrealized gains (losses)	(633,758)	(271,636)
Net change in fair value of credit derivatives	(690,639)	(236,209)
Fair value gain (loss) on committed capital securities	(13,904)	526
Fair value gains (losses) on financial guaranty variable interest entities	(36,602)	119,601
Other income	90,984	40,800
Total revenues	(357,406)	278,913
Expenses		
Loss and loss adjustment expenses	246,847	(25,580)
Amortization of deferred acquisition costs	5,413	3,662
Interest expense	24,673	24,760
Other operating expenses	61,280	62,883
Total expenses	338,213	65,725
Income (loss) before income taxes	(695,619)	213,188
Provision (benefit) for income taxes		
Current	29,528	(197,599)
Deferred	(242,123)	271,531
Total provision (benefit) for income taxes	(212,595)	73,932
Net income (loss)	**$ (483,024)**	**$ 139,256**
Earnings per share:		
Basic	$ (2.65)	$ 0.76
Diluted	$ (2.65)	$ 0.74
Dividends per share	$ 0.09	$ 0.045

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2012	**2011**
Net income (loss)	**$ (483,024)**	**$ 139,256**
Unrealized holding gains (losses) arising during the period on:		
Investments with no other-than-temporary impairment, net of tax provision (benefit) of $19,049 and $(19,632)	42,123	(46,390)
Investments with other-than-temporary impairment, net of tax provision (benefit) of $(7,345) and $9,195	(13,736)	20,845
Unrealized holding gains (losses) arising during the period, net of tax	28,387	(25,545)
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of $(1,272) and $172	(856)	1,029
Change in net unrealized gains on investments	29,243	(26,574)
Change in cumulative translation adjustment, net of tax provision (benefit) of $941 and $669	1,750	1,243
Change in cash flow hedge, net of tax provision (benefit) of $(56) and $(56)	(105)	(105)
Other comprehensive income (loss)	30,888	(25,436)
Comprehensive income (loss)	**$ (452,136)**	**$ 113,820**

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders Equity (Unaudited)

For the Three Months Ended March 31, 2012

(dollars in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Equity Compensation	Total Shareholders Equity
Balance, December 31, 2011	**182,235,798**	**$ 1,822**	**$ 2,569,922**	**$ 1,707,922**	**$ 367,499**	**$ 4,400**	**$ 4,651,565**
Net loss				(483,024)			(483,024)
Dividends ($0.09 per share)				(16,425)			(16,425)
Dividends on restricted stock units			93	(93)			
Share-based compensation and other	288,775	3	(489)				(486)
Other comprehensive income					30,888		30,888
Balance, March 31, 2012	**182,524,573**	**$ 1,825**	**$ 2,569,526**	**$ 1,208,380**	**$ 398,387**	**$ 4,400**	**$ 4,182,518**

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2012	**2011**
Net cash flows provided by (used in) operating activities	**$ 75,256**	**$ (122,143)**
Investing activities		
Fixed maturity securities:		
Purchases	(382,588)	(511,679)
Sales	189,346	299,877
Maturities	253,488	183,587
Net sales (purchases) of short-term investments	(142,735)	242,296
Net proceeds from paydowns on financial guaranty variable interest entities assets	137,595	162,500
Other	51,607	4,246
Net cash flows provided by (used in) investing activities	**106,713**	**380,827**
Financing activities		
Dividends paid	(16,425)	(8,286)
Share activity under option and incentive plans	(2,478)	(2,312)
Net paydowns of financial guaranty variable interest entities liabilities	(192,882)	(241,618)
Repayment of long-term debt	(5,461)	(5,095)
Net cash flows provided by (used in) financing activities	**(217,246)**	**(257,311)**
Effect of exchange rate changes	2,736	1,825
Increase (decrease) in cash	(32,541)	3,198
Cash at beginning of period	214,544	108,389
Cash at end of period	**$ 182,003**	**$ 111,587**
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	$ 2,000	$ 51,465
Interest	$ 12,082	$ 12,190

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2012

1. Business and Basis of Presentation

Business

Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty or the Company) is a Bermuda-based holding company that provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and international public finance, infrastructure and structured finance markets. The Company has applied its credit underwriting judgment, risk management skills and capital markets experience to offer insurance that protect holders of debt instruments and other monetary obligations from defaults in scheduled payments, including scheduled interest and principal payments. The securities insured by the Company include tax-exempt and taxable obligations issued by U.S. state or municipal governmental authorities, utility districts or facilities; notes or bonds issued to finance international infrastructure projects; and asset-backed securities issued by special purpose entities. The Company markets its credit protection products directly to issuers and underwriters of public finance, infrastructure and structured finance securities as well as to investors in such debt obligations. The Company guarantees debt obligations issued in many countries, although its principal focus is on the U.S., Europe and Australia.

Financial guaranty insurance contracts provide an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Upon an obligor s default on scheduled principal or interest payments due on the obligation, the Company is required under the financial guaranty contract to pay the principal or interest shortfall.

In the past, the Company had sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives. Financial guaranty contracts accounted for as credit derivatives are generally structured such that the circumstances giving rise to the Company s obligation to make loss payments are similar to those for financial guaranty insurance contracts and only occurs upon one or more defined credit events such as failure to pay or bankruptcy, in each case, as defined within the transaction documents, with respect to one or more third party referenced securities or loans. Financial guaranty contracts accounted for as credit derivatives are primarily comprised of credit default swaps (CDS). The Company s credit derivative transactions are governed by International Swaps and Derivative Association, Inc. (ISDA) documentation.

The Company has not entered into any new CDS in order to sell credit protection since the beginning of 2009, when regulatory guidelines were issued that limited the terms under which such protection could be sold. The potential capital or margin requirements that may apply under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) also contributed to the decision of the Company not to enter into new CDS in the foreseeable future. The Company is actively pursuing opportunities to terminate existing CDS and in certain cases, has converted existing CDS exposure into a financial guaranty insurance contract. These actions have the effect of reducing fair value volatility

in income and/or reducing rating agency capital charges.

The Company has historically entered into ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks. In January 2012, Assured Guaranty Municipal Corp. (AGM) and Assured Guaranty Corp. (AGC) entered into a new $435 million of excess of loss reinsurance facility, which reduced rating agency capital charges. In recent years, however, the Company has been reassuming previously ceded business from reinsurers. In the three-month period ended March 31, 2012 (First Quarter 2012), the Company reassumed a total of $19.1 billion in par from two reinsurers. See Note 11, Reinsurance and Other Monoline Exposures.

Public finance obligations insured by the Company consist primarily of general obligation bonds supported by the issuers taxing powers, tax-supported bonds and revenue bonds and other obligations of states, their political subdivisions and other municipal issuers supported by the issuers or obligors covenant to impose and collect fees and charges for public services or specific projects. Public finance obligations include obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including government office buildings, toll roads, health care

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

1. Business and Basis of Presentation (Continued)

facilities and utilities. Structured finance obligations insured by the Company are generally issued by special purpose entities and backed by pools of assets such as residential or commercial mortgage loans, consumer or trade receivables, securities or other assets having an ascertainable cash flow or market value. The Company also insures other specialized financial obligations.

When a rating agency assigns a public rating to a financial obligation guaranteed by one of AGL s insurance company subsidiaries, it generally awards that obligation the same rating it has assigned to the financial strength of the AGL subsidiary that provides the guaranty. Investors in products insured by AGL s insurance company subsidiaries frequently rely on ratings published by nationally recognized statistical rating organizations (NRSROs) because such ratings influence the trading value of securities and form the basis for many institutions investment guidelines as well as individuals bond purchase decisions. Therefore, the Company manages its business with the goal of achieving high financial strength ratings. However, the models used by NRSROs differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. The models are not fully transparent, contain subjective data (such as assumptions about future market demand for the Company s products) and change frequently. Ratings reflect only the views of the respective NRSROs and are subject to continuous review and revision or withdrawal at any time.

Unless otherwise noted, ratings on Assured Guaranty s insured portfolio reflect Assured Guaranty s internal ratings. Assured Guaranty s ratings scale is similar to that used by the NRSROs; however, the ratings in these financial statements may not be the same as those assigned by any such rating agency. For example, the super senior category, which is not generally used by rating agencies, is used by Assured Guaranty in instances where Assured Guaranty s AAA-rated exposure on its internal rating scale (which does not take into account Assured Guaranty s financial guaranty) 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 benefiting 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.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated financial guaranty variable interest entities (FG VIEs) for the periods presented. The preparation of financial statements in conformity with GAAP requires management to

make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These unaudited interim consolidated financial statements are as of March 31, 2012 and cover First Quarter 2012 and the three-month period ended March 31, 2011 (First Quarter 2011). The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The unaudited interim consolidated financial statements include the accounts of AGL and its direct and indirect subsidiaries (collectively, the Subsidiaries) and its consolidated FG VIEs. Intercompany accounts and transactions between and among all consolidated entities have been eliminated. Certain prior year balances have been reclassified to conform to the current year s presentation.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, filed with the U.S. Securities and Exchange Commission (the SEC).

AGL s principal insurance company subsidiaries are AGC, domiciled in Maryland; AGM, domiciled in New York; and Assured Guaranty Re Ltd. (AG Re), domiciled in Bermuda. In addition, the Company has another U.S. and another Bermuda insurance company subsidiary that participate in a pooling agreement with AGM, two insurance subsidiaries organized in the United Kingdom, and a mortgage insurance company. The Company s organizational structure includes various holdings companies, two of which Assured Guaranty US Holdings Inc. (AGUS) and Assured Guaranty Municipal Holdings Inc. (AGMH) have public debt outstanding. See Note 13, Long Term Debt and Credit Facilities.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

2. Business Changes, Risks, Uncertainties and Accounting Developments

Summarized below are updates of the most significant events over the past two years that have had, or may have in the future, a material effect on the financial position, results of operations or business prospects of the Company.

Rating Actions

Standard and Poor s Ratings Services (S&P) and Moody s Investors Service, Inc (Moody s) have downgraded the financial strength ratings of all the Company s insurance subsidiaries over the course of the last several years. On March 20, 2012, Moody s placed the ratings of AGL and its Subsidiaries, including the insurance financial strength rating of the Company s insurance subsidiaries, on review for possible downgrade. There can be no assurance that S&P and Moody s will not take further action on the Company s ratings. See Note 4, Financial Guaranty Insurance Contracts, Note 6, Financial Guaranty Contracts Accounted for as Credit Derivatives and Note 11, Reinsurance and Other Monoline Exposure, for more information regarding the effect of S&P and Moody s rating actions on the financial guaranty business, the credit derivative business and the assumed reinsurance business of the Company. The insurance subsidiaries financial strength ratings are an important competitive factor in the financial guaranty insurance and reinsurance markets. If the financial strength or financial enhancement ratings of the Company s insurance subsidiaries were reduced below current levels, the Company expects it could have adverse effects on its future business opportunities as well as the premiums it could charge for its insurance policies and consequently, a downgrade could harm the Company s new business production and results of operations in a material respect.

Accounting Changes

Recently, there has been significant GAAP rule making activity which has affected the accounting policies and presentation of the Company s financial information, particularly:

- Adoption of new guidance on January 1, 2012 that restricted the types and amounts of costs that may be deferred. See Note 4, Financial Guaranty Insurance Contracts.

- Adoption of guidance that changed the presentation of other comprehensive income (OCI). See Consolidated Statements of Comprehensive Income.

- Adoption of guidance requiring additional fair value disclosures. See Note 5, Fair Value Measurement.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance which will require disclosures for entities with financial instruments and derivatives that are either offset on the balance sheet or subject to a master netting arrangement. The guidance is effective for interim and annual periods beginning on or after January 1, 2013.

Deutsche Bank Agreement

On May 8, 2012, Assured Guaranty reached a settlement with Deutsche Bank AG and certain of its affiliates (collectively, Deutsche Bank), resolving claims related to certain residential mortgage-backed securities (RMBS) transactions issued, underwritten or sponsored by Deutsche Bank that were insured by Assured Guaranty under financial guaranty insurance policies and to certain RMBS exposures in re-securitization transactions as to which Assured Guaranty provides credit protection through CDS. As part of the settlement agreement (the Deutsche Bank Agreement), Assured Guaranty has settled its litigation against Deutsche Bank on three RMBS transactions. See Note 4 of the Financial Statements, Financial Guaranty Insurance Contracts, Recovery Litigation RMBS Transactions for information about the RMBS transactions subject to the settlement.

The Deutsche Bank Agreement provides for Assured Guaranty to receive a cash payment of $165.6 million from Deutsche Bank upon signing, a portion of which will partially reimburse Assured Guaranty for past losses on certain transactions. Assured Guaranty and Deutsche Bank have also entered into loss sharing arrangements covering future RMBS related losses, which are described below. Under the Deutsche Bank Agreement, Deutsche Bank AG will place approximately $282.7 million of eligible assets in trust in order to collateralize the obligations of a reinsurance affiliate under the loss-sharing arrangements, and the Deutsche Bank reinsurance affiliate may post additional collateral in the future to satisfy rating agency requirements.

Included in the settlement are eight RMBS transactions (Covered Transactions) that Assured Guaranty has insured through financial guaranty insurance policies. The Covered Transactions are backed by first lien and second lien mortgage loans. Under the Deutsche Bank Agreement, the Deutsche Bank reinsurance affiliate will reimburse 80% of Assured Guaranty s future losses on the Covered Transactions until Assured Guaranty s aggregate losses (including those to date that are partially reimbursed by the $165.6 million cash payment) reach $318.8 million. Assured Guaranty currently projects that the Covered Transactions will not generate aggregate losses in excess of $318.8 million. In the event aggregate losses exceed $388.8 million, the reinsurance affiliate is required to resume reimbursement at the rate of 85% of Assured Guaranty s losses in excess of $388.8 million until such losses reach $600.0 million. The Covered Transactions represented $581 million of gross par outstanding as of April 25, 2012.

Certain uninsured tranches (Uninsured Tranches) of three of the Covered Transactions are included as collateral in RMBS re- securitization transactions as to which Assured Guaranty provides credit protection through CDS. Under the Deutsche Bank Agreement, the Deutsche Bank reinsurance affiliate will reimburse losses on the CDS in an amount equal to 60% of losses in these Uninsured Tranches until the aggregate losses in the Uninsured Tranches reach $141.1 million. Assured Guaranty currently projects that the Uninsured Tranches will not generate losses in excess of $141.1 million. In the event aggregate losses exceed $161.1 million, reimbursement resumes at the rate of 60% until the aggregate losses reach $185.1 million. The reinsurance affiliate is required to reimburse any losses in excess of $185.1 million at the rate of 100% until the aggregate losses reach $247.8 million. The Uninsured Tranches represent $337 million of gross par outstanding as of April 25, 2012.

The terms of the Deutsche Bank settlement were largely reflected in Assured Guaranty s 2011 financial guaranty insurance expected losses.

Except for the Uninsured Tranches, the settlement does not include Assured Guaranty s CDS with Deutsche Bank. The parties have agreed to continue efforts to resolve CDS-related claims.

3. Outstanding Exposure

The Company s financial guaranty contracts are written in different forms, but collectively are considered financial guaranty contracts. They typically guarantee the scheduled payments of principal and interest (Debt Service) on public finance and structured finance obligations. The Company seeks to limit its exposure to losses by underwriting obligations that are investment grade at inception, diversifying its portfolio and maintaining rigorous subordination or collateralization requirements on structured finance obligations. The Company also has utilized reinsurance by ceding business to third-party reinsurers. The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. Based on accounting standards in effect during any given reporting period, some of these VIEs are consolidated as described in Note 7, Consolidation of Variable Interest Entities. The outstanding par and Debt Service amounts presented below include outstanding exposures on VIEs whether or not they are consolidated.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

3. Outstanding Exposure (Continued)

Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(in millions)			
Public finance	$ 786,373	$ 798,471	$ 735,829	$ 716,890
Structured finance	130,802	137,661	122,698	128,775
Total financial guaranty	$ 917,175	$ 936,132	$ 858,527	$ 845,665

As of March 31, 2012, the Company s net mortgage guaranty insurance in force was approximately $176.7 million. Of the $176.7 million, $140.1 million covers loans originated in Ireland and $36.6 million covers loans originated in the UK.

Financial Guaranty Portfolio by Internal Rating

	As of March 31, 2012									
	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S		Structured Finance Non-U.S		Total	
Rating Category	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%
	(dollars in millions)									
Super senior	$	%	$ 1,165	2.9%	$ 15,756	18.0%	$ 5,219	22.8%	$ 22,140	3.9%
AAA	4,931	1.2	1,384	3.5	34,974	39.8	10,286	44.9	51,575	9.1
AA	144,987	34.8	973	2.4	10,537	12.0	936	4.1	157,433	27.7
A	219,095	52.6	11,126	27.9	4,759	5.4	1,389	6.1	236,369	41.7
BBB	42,916	10.3	22,913	57.4	4,726	5.4	3,027	13.2	73,582	13.0
Below-investment-grade (BIG)	4,570	1.1	2,352	5.9	17,032	19.4	2,045	8.9	25,999	4.6
Total net par outstanding	$ 416,499	100.0%	$ 39,913	100.0%	$ 87,784	100.0%	$ 22,902	100.0%	$ 567,098	100.0%

	As of December 31, 2011									
	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S		Structured Finance Non-U.S		Total	
Rating Category	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%
	(dollars in millions)									
Super senior	$	%	$ 1,138	2.9%	$ 16,756	18.2%	$ 5,660	23.9%	$ 23,554	4.2%
AAA	5,074	1.3	1,381	3.5	35,736	38.7	10,231	43.2	52,422	9.4
AA	139,693	34.6	1,056	2.7	12,575	13.6	976	4.1	154,300	27.7
A	213,164	52.9	11,744	30.1	4,115	4.5	1,518	6.4	230,541	41.3
BBB	40,635	10.1	21,399	54.8	5,044	5.5	3,391	14.3	70,469	12.6
BIG	4,507	1.1	2,328	6.0	18,008	19.5	1,919	8.1	26,762	4.8
Total net par outstanding	$ 403,073	100.0%	$ 39,046	100.0%	$ 92,234	100.0%	$ 23,695	100.0%	$ 558,048	100.0%

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

3. Outstanding Exposure (Continued)

In First Quarter 2012, the Company reclassified as AA 80% of the net par outstanding of those first lien transactions that are covered by the Bank of America Agreement (see Note 4, Financial Guaranty Insurance Contracts) and that the Company otherwise internally rated below AA. The Company reclassified those amounts as AA exposure due to the eligible assets that Bank of America has placed into trust in order to collateralize its reimbursement obligation relating to 21 first lien transactions. This reclassification resulted in a decrease of net outstanding par rated BIG as of December 31, 2011 by $1,452 million from that previously reported and, without this change, net outstanding par rated BIG as of March 31, 2012 would have been $1,382 million higher. Prior periods have been revised to conform to this presentation.

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of $2.1 billion for structured finance and $1.0 billion for public finance obligations at March 31, 2012. The structured finance commitments include the unfunded component of pooled corporate and other transactions. Public finance commitments typically relate to primary and secondary public finance debt issuances. The expiration dates for the public finance commitments range between April 1, 2012 and February 25, 2017, with $0.7 billion expiring prior to December 31, 2012. All the commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be cancelled at the counterparty s request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

Economic Exposure to the Selected European Countries

Several European countries are experiencing significant economic, fiscal and/or political strains such that the likelihood of default on obligations with a nexus to those countries may be higher than the Company anticipated when such factors did not exist. The Company is closely monitoring its exposures in European countries where it believes heightened uncertainties exist, specifically, Greece, Hungary, Ireland, Italy, Portugal and Spain (the Selected European Countries). Published reports have identified countries that may be experiencing reduced demand for their sovereign debt in the current environment. The Company selected these European countries based on these reports and its view that their credit fundamentals are deteriorating. The Company s economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following table net of ceded reinsurance.

Net Economic Exposure to Selected European Countries(1)

March 31, 2012

	Greece	Hungary	Ireland	Italy	Portugal	Spain	Total
				(in millions)			
Sovereign and sub-sovereign exposure:							
Public finance	$ 291	$	$	$ 1,040	$ 113	$ 270	$ 1,714
Infrastructure finance		453	25	341	104	174	1,097
Sub-total	291	453	25	1,381	217	444	2,811
Non-sovereign exposure:							
Regulated utilities				226		17	243
RMBS		249	140	522			911
Commercial receivables		1	20	27	15	18	81
Pooled corporate	33		244	251	14	544	1,086
Sub-total	33	250	404	1,026	29	579	2,321
Total	$ 324	$ 703	$ 429	$ 2,407	$ 246	$ 1,023	$ 5,132
Total BIG	$ 291	$ 540	$ 15	$ 252	$ 130	$ 145	$ 1,373

(1) While the Company s exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, including U.S. dollars, Euros and British pounds sterling. Included in the table above is $140.1 million of reinsurance assumed on a 2004 - 2006 pool of Irish residential mortgages that is part of the Company s remaining $176.7 million legacy mortgage reinsurance business. The legacy mortgage reinsurance business is not included in the Company s exposure tables elsewhere in this document because the amount of the exposure is relatively immaterial. One of the residential mortgage-backed securities included in the table above includes residential mortgages in both Italy and Germany, and only the portion of the transaction equal to the portion of the original mortgage pool in Italian mortgages is shown in the table.

Included in Public Finance in the tables above are $291 million (net of reinsurance) of bonds of the Hellenic Republic of Greece. The Company has not guaranteed any other sovereign bonds of the Selected European Countries. The remainder of the Public Finance Category is from transactions backed by receivable payments from sub-sovereigns in Italy, Spain and Portugal. Debt issued by a governmental entity or government backed entity, or supported by such an entity, that is other than direct sovereign debt of the ultimate governing body of the country.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

3. Outstanding Exposure (Continued)

Surveillance Categories

The Company segregates its insured portfolio into investment grade and BIG surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review for each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company s internal credit ratings are based on internal assessments of the likelihood of default and loss severity in the event of default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and are generally reflective of an approach similar to that employed by the rating agencies.

The Company monitors its investment grade credits to determine whether any new credits need to be internally downgraded to BIG. The Company refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the Company s view of the credit s quality, loss potential, volatility and sector. Ratings on credits in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. The Company s insured credit ratings on assumed credits are based on the Company s reviews of low-rated credits or credits in volatile sectors, unless such information is not available, in which case, the ceding company s credit rating of the transactions are used. For example, the Company models all assumed RMBS credits with par above $1 million, as well as certain RMBS credits below that amount.

Credits identified as BIG are subjected to further review to determine the probability of a loss (see Note 4, Financial Guaranty Insurance Contracts). Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a lifetime loss is expected and whether a claim has been paid. The Company expects lifetime losses on a transaction when the Company believes there is at least a 50% chance that, on a present value basis, it will pay more claims over the life of that transaction than it will ultimately have been reimbursed. For surveillance purposes, the Company calculates present value using a constant discount rate of 5%. (A risk free rate is used for recording of reserves for financial statement purposes.)

Intense monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. The three BIG categories are:

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make lifetime losses possible, but for which none are currently expected. Transactions on which claims have been paid but are expected to be fully reimbursed (other than investment grade transactions on which only liquidity claims have been paid) are in this category.

- BIG Category 2: Below-investment-grade transactions for which lifetime losses are expected but for which no claims (other than liquidity claims which is a claim that the Company expects to be reimbursed within one year) have yet been paid.

- BIG Category 3: Below-investment-grade transactions for which lifetime losses are expected and on which claims (other than liquidity claims) have been paid. Transactions remain in this category when claims have been paid and only a recoverable remains.

Included in the first lien RMBS BIG exposures below is $345.6 million of net par outstanding related to transactions covered by the Bank of America Agreement which represents the portion of the covered first lien transactions (20%) that are not subject to reimbursement from Bank of America as of March 31, 2012. Under the Bank of America Agreement, 80% of first lien claims paid by Assured Guaranty will be reimbursed, until such time as losses on the collateral underlying the RMBS on which Assured Guaranty is paying claims reach $6.6 billion. See Note 4, Financial Guaranty Insurance Contracts.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

3. Outstanding Exposure (Continued)

Financial Guaranty Exposures

(Insurance and Credit Derivative Form)

	As of March 31, 2012					
	BIG Net Par Outstanding					
	BIG 1	BIG 2	BIG 3	Total BIG	Net Par Outstanding	BIG Net Par as a % of Net Par Outstanding
	(in millions)					
First lien U.S. RMBS:						
Prime first lien	$ 77	$ 448	$	$ 525	$ 713	0.1%
Alt-A first lien	962	1,717	1,493	4,172	5,208	0.7
Option ARM	1	687	775	1,463	2,256	0.3
Subprime (including net interest margin securities)	208	1,745	498	2,451	7,976	0.4
Second lien U.S. RMBS:						
Closed end second lien		493	504	997	1,020	0.2
Home equity lines of credit (HELOCs)	401		2,716	3,117	3,700	0.6
Total U.S. RMBS	1,649	5,090	5,986	12,725	20,873	2.3
Trust preferred securities (TruPS)	2,140		952	3,092	6,272	0.5
Other structured finance	1,410	465	1,385	3,260	83,541	0.6
U.S. public finance	3,480	270	820	4,570	416,499	0.8
Non-U.S. public finance (1)	2,061	291		2,352	39,913	0.4
Total	$ 10,740	$ 6,116	$ 9,143	$ 25,999	$ 567,098	4.6%

	As of December 31, 2011					
	BIG Net Par Outstanding					
	BIG 1	BIG 2	BIG 3	Total BIG	Net Par Outstanding	BIG Net Par as a % of Net Par Outstanding
	(in millions)					
First lien U.S. RMBS:						
Prime first lien	$ 77	$ 465	$	$ 542	$ 739	0.1%
Alt-A first lien	1,695	1,028	1,540	4,263	5,329	0.8
Option ARM	25	689	882	1,596	2,433	0.3

Subprime (including net interest margin securities)	795	1,200	513	2,508	8,136	0.4
Second lien U.S. RMBS:						
Closed end second lien		495	520	1,015	1,040	0.2
HELOCs	421		2,858	3,279	3,890	0.6
Total U.S. RMBS	3,013	3,877	6,313	13,203	21,567	2.4
TruPS	2,501		951	3,452	6,334	0.6
Other structured finance	1,295	548	1,429	3,272	88,028	0.6
U.S. public finance	3,395	274	838	4,507	403,073	0.8
Non-U.S. public finance (1)	2,046	282		2,328	39,046	0.4
Total	$ 12,250	$ 4,981	$ 9,531	$ 26,762	$ 558,048	4.8%

(1) Include $291 million in net par and $231.9 million in expected loss to be paid as of March 31, 2012 and $282 million in net par and $42.6 million in expected loss to be paid as of December 31, 2011 for bonds of the Hellenic Republic of Greece.

By Category Below-Investment-Grade Credits

	As of March 31, 2012					
	Net Par Outstanding			Number of Risks(2)		
Description	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
	(dollars in millions)					
BIG:						
Category 1	$ 7,703	$ 3,037	$ 10,740	164	33	197
Category 2	3,903	2,213	6,116	79	35	114
Category 3	6,913	2,230	9,143	125	26	151
Total BIG	$ 18,519	$ 7,480	$ 25,999	368	94	462

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

3. Outstanding Exposure (Continued)

	As of December 31, 2011					
	Net Par Outstanding			Number of Risks(2)		
Description	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
	(dollars in millions)					
BIG:						
Category 1	$ 8,297	$ 3,953	$ 12,250	171	40	211
Category 2	3,458	1,523	4,981	71	33	104
Category 3	7,204	2,327	9,531	126	26	152
Total BIG	$ 18,959	$ 7,803	$ 26,762	368	99	467

(1) Includes net par outstanding for FG VIEs.

(2) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making Debt Service payments.

4. Financial Guaranty Insurance Contracts

Change in accounting for deferred acquisition costs

In October 2010, the FASB adopted Accounting Standards Update (Update) No. 2010-26. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Company adopted this new guidance with retrospective application. The amendment in the Update specifies that certain costs incurred in the successful acquisition of new and renewal insurance contracts should be capitalized. These costs include direct costs of contract acquisition that result directly from and are essential to the contract transaction. These costs include expenses such as ceding commissions and the cost of underwriting personnel. Management uses its judgment in determining the type and amount of cost to be deferred. The Company conducts an annual study to determine which operating costs vary with, and are directly related to, the acquisition of new business, and therefore qualify for deferral. Ceding commission income on business ceded to third party reinsurers reduces policy acquisition costs and is deferred. Costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs are charged to expense as

incurred.

Expected losses, loss adjustment expenses (LAE) and the remaining costs of servicing the insured or reinsured business are considered in determining the recoverability of deferred acquisition costs. When an insured issue is retired early, the remaining related deferred acquisition cost is expensed at that time. Ceding commission expense and income associated with future installment premiums on assumed and ceded business, respectively, are calculated at their contractually defined rates and recorded in deferred acquisition costs on the consolidated balance sheets with a corresponding offset to net premium receivable or reinsurance balances payable.

As of January 1, 2011, the effect of retrospective application of the new guidance was a reduction to deferred acquisition costs of $94.4 million and a reduction to retained earnings of $64.0 million.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

Effect of Retrospective Application of New Deferred Acquisition Cost Guidance

On Consolidated Statements of Operations

	As Reported First Quarter 2011	Retroactive Application Adjustment	As Revised First Quarter 2011
	(in millions except per share amounts)		
Amortization of deferred acquisition costs	$ 7.4	$ (3.7)	$ 3.7
Other operating expenses	56.8	6.0	62.8
Total expenses	63.5	2.3	65.8
Income (loss) before income taxes	215.5	(2.3)	213.2
Total provision (benefit) for income taxes	74.9	(1.0)	73.9
Net income (loss)	140.6	(1.3)	139.3
Earnings per share:			
Basic	$ 0.76	$	$ 0.76
Diluted	0.75	(0.01)	0.74

The portfolio of outstanding exposures discussed in Note 3, Outstanding Exposure, includes financial guaranty contracts that meet the definition of insurance contracts as well as those that meet the definition of derivative contracts. Amounts presented in this note relate to financial guaranty insurance contracts. Tables presented herein also present reconciliations to financial statement line items for other less significant types of insurance.

Net Earned Premiums

	First Quarter	
	2012	2011
	(in millions)	
Scheduled net earned premiums	$ 152.0	$ 214.9
Acceleration of premium earnings	36.6	29.6

Accretion of discount on net premiums receivable		4.7		9.0
Total financial guaranty		193.3		253.5
Other		0.4		0.5
Total net earned premiums(1)	$	193.7	$	254.0

(1) Excludes $17.0 million and $19.1 million in First Quarter 2012 and 2011, respectively, related to consolidated FG VIEs.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

Gross Premium Receivable, Net of Ceding Commissions Roll Forward

	First Quarter	
	2012	2011
	(in millions)	
Gross premium receivable, net of ceding commissions payable:		
Balance beginning of period	$ 1,002.9	$ 1,167.6
Premium written, net	56.3	48.0
Premium payments received, net	(86.1)	(72.8)
Adjustments to the premium receivable:		
Changes in the expected term of financial guaranty insurance contracts	32.7	(51.1)
Accretion of discount	6.1	9.2
Foreign exchange translation	12.2	15.9
Consolidation of FG VIEs	(5.4)	
Other adjustments		1.2
Balance, end of period (1)	$ 1,018.7	$ 1,118.0

(1) Excludes $32.6 million and $19.8 million as of March 31, 2012 and 2011, respectively, related to consolidated FG VIEs.

Gains or losses due to foreign exchange rate changes relate to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 48%, 47% and 45% of installment premiums at March 31, 2012, December 31, 2011 and March 31, 2011, respectively, are denominated in currencies other than the U.S. dollar, primarily in euro and British Pound Sterling.

Actual collections may differ from expected collections in the tables below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, refundings, accelerations, commutations and changes in expected lives.

Expected Collections of Gross Premiums Receivable,

Net of Ceding Commissions (Undiscounted)

	March 31, 2012 (in millions)
2012 (April 1 June 30)	$ 56.6
2012 (July 1 September 30)	30.8
2012 (October 1 December 31)	44.6
2013	109.5
2014	95.9
2015	85.7
2016	79.8
2017-2021	315.9
2022-2026	214.6
2027-2031	158.7
After 2031	194.4
Total(1)	$ 1,386.5

(1) Excludes expected cash collections on FG VIEs of $38.9 million.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

Components of Unearned Premium Reserve

	As of March 31, 2012			As of December 31, 2011		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
	(in millions)					
Deferred premium revenue	$ 5,918.8	$ 647.8	$ 5,271.0	$ 6,046.3	$ 727.4	$ 5,318.9
Contra-paid	(87.9)	(16.7)	(71.2)	(92.2)	(18.8)	(73.4)
Total financial guaranty	5,830.9	631.1	5,199.8	5,954.1	708.6	5,245.5
Other	8.3	0.3	8.0	8.7	0.3	8.4
Total	$ 5,839.2	$ 631.4	$ 5,207.8	$ 5,962.8	$ 708.9	$ 5,253.9

(1) Total net unearned premium reserve excludes $249.7 million and $274.2 million related to FG VIE s as of March 31, 2012 and December 31, 2011, respectively.

The following table provides a schedule of the expected timing of the income statement recognition of financial guaranty insurance net deferred premium revenue and the present value of net expected losses to be expensed, pretax which are not included in loss and LAE reserve. The amount and timing of actual premium earnings and loss and LAE may differ from the estimates shown below due to factors such as refundings, accelerations, commutations, changes in expected lives and updates to loss estimates. A loss and LAE reserve is only recorded for the amount by which net expected loss to be expensed exceeds deferred premium revenue determined on a contract-by-contract basis. This table excludes amounts related to consolidated FG VIEs.

Expected Timing of Financial Guaranty Insurance

Premium and Loss Recognition

As of March 31, 2012

	Scheduled Net Earned Premium	Net Expected Loss to be Expensed	Net
		(in millions)	
2012 (April 1 June 30)	$ 144.3	$ 17.8	$ 126.5
2012 (July 1 September 30)	138.2	17.0	121.2
2012 (October 1 December 31)	131.6	15.5	116.1
Subtotal 2012	414.1	50.3	363.8
2013	474.1	58.4	415.7
2014	436.6	46.8	389.8
2015	387.1	41.2	345.9
2016	351.9	33.2	318.7
2017 - 2021	1,334.4	136.9	1,197.5
2022 - 2026	838.9	74.0	764.9
2027 - 2031	508.2	35.8	472.4
After 2031	525.7	27.2	498.5
Total present value basis(1)(2)	5,271.0	503.8	4,767.2
Discount	298.8	292.6	6.2
Total future value	$ 5,569.8	$ 796.4	$ 4,773.4

(1) Balances represent discounted amounts.

(2) Consolidation of FG VIEs resulted in reductions of $396.2 million in future scheduled amortization of deferred premium revenue and $211.0 million in net present value of expected loss to be expensed.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

Selected Information for Policies Paid in Installments

	As of March 31, 2012	As of December 31, 2011
	(dollars in millions)	
Premiums receivable, net of ceding commission payable	$ 1,018.7	$ 1,002.9
Gross deferred premium revenue	2,125.6	2,192.6
Weighted-average risk-free rate used to discount premiums	3.7	3.4
Weighted-average period of premiums receivable (in years)	10.0	9.8

Loss Estimation Process

The Company s loss reserve committees estimate expected loss to be paid. Surveillance personnel present analysis related to potential losses to the Company s loss reserve committees for consideration in estimating the expected loss to be paid. Such analysis includes the consideration of various scenarios with potential probabilities assigned to them. Depending upon the nature of the risk, the Company s view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments and sector-driven loss severity assumptions or judgmental assessments. In the case of its assumed business, the Company may conduct its own analysis as just described or, depending on the Company s view of the potential size of any loss and the information available to the Company, the Company may use loss estimates provided by ceding insurers. The Company s loss reserve committees review and refresh the estimate of expected loss to be paid each quarter. The Company s estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the insured transaction due to the potential for significant variability in credit performance as a result of economic, fiscal and financial market variability over the long duration of most contracts. The determination of expected loss to be paid is an inherently subjective process involving numerous estimates, assumptions and judgments by management.

The following table presents a roll forward of the present value of net expected loss to be paid for financial guaranty insurance contracts by sector. Net expected loss to be paid is the estimate of the present value of future claim payments, net of reinsurance and net of salvage and subrogation, which includes the present value benefit of estimated recoveries for breaches of representations and warranties (R&W). The Company used weighted average risk-free rates for U.S. dollar denominated obligations, which ranged from 0.0% to 3.94% as of March 31, 2012 and 0.0% to 3.27% as of December 31, 2011. The weighted average risk-free rates for Euro denominated obligations was 0.0% - 2.84% as of March 31, 2012 and 0.0% - 2.69% as of December 31, 2011.

Financial Guaranty Insurance

Present Value of Net Expected Loss to be Paid

Roll Forward by Sector(1)

	Net Expected Loss to be Paid as of December 31, 2011(4)	Economic Loss Development(2)	(Paid) Recovered Losses(3)	Net Expected Loss to be Paid as of March 31, 2012(4)
		(in millions)		
U.S. RMBS:				
First lien:				
Prime first lien	$ 1.8	$ 0.4	$	$ 2.2
Alt-A first lien	134.9	(8.6)	(9.4)	116.9
Option ARM	152.9	(1.7)	(75.9)	75.3
Subprime	140.3	11.3	(1.2)	150.4
Total first lien	429.9	1.4	(86.5)	344.8
Second lien:				
Closed-end second lien	(79.6)	(1.1)	(9.0)	(89.7)
HELOCs	(31.1)	7.6	(19.0)	(42.5)
Total second lien	(110.7)	6.5	(28.0)	(132.2)
Total U.S. RMBS	319.2	7.9	(114.5)	212.6
Other structured finance	252.8	(23.8)	(23.7)	205.3
Public finance(5)	66.0	220.7	47.8	334.5
Total	$ 638.0	$ 204.8	$ (90.4)	$ 752.4

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

	Net Expected Loss to be Paid as of December 31, 2010	Economic Loss Development(2)	(Paid) Recovered Losses(3)	Expected Loss to be Paid as of March 31, 2011(4)
		(in millions)		
U.S. RMBS:				
First lien:				
Prime first lien	$ 1.4	$ 0.1	$	$ 1.5
Alt-A first lien	184.4	6.5	(19.5)	171.4
Option ARM	523.7	(114.7)	(86.9)	322.1
Subprime	200.4	(17.8)	(15.1)	167.5
Total first lien	909.9	(125.9)	(121.5)	662.5
Second lien:				
Closed-end second lien	56.6	(106.4)	(27.1)	(76.9)
HELOCs	(805.7)	77.6	(64.6)	(792.7)
Total second lien	(749.1)	(28.8)	(91.7)	(869.6)
Total U.S. RMBS	160.8	(154.7)	(213.2)	(207.1)
Other structured finance	159.1	16.3	(2.4)	173.0
Public finance(5)	88.9	(13.6)	(9.0)	66.3
Total	$ 408.8	$ (152.0)	$ (224.6)	$ 32.2

(1) Amounts include all expected payments whether or not the insured VIE is consolidated. Amounts exclude reserves for mortgage business of $1.9 million as of March 31, 2012 and December 31, 2011.

(2) Economic loss development includes the effects of changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

(3) Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are typically settled 45 days after the end of the reporting period. Such amounts are recorded in reinsurance recoverable on paid losses included in other assets.

(4) Includes expected LAE to be paid for mitigating claim liabilities of $26.9 million as of March 31, 2012 and $35.5 million as of December 31, 2011.

(5) Includes expected loss to be paid of $231.9 million as of March 31, 2012 and $42.6 million as of December 31, 2011 related to Greek sovereign debt.

The table below provides a reconciliation of expected loss to be paid to expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (1) the contra-paid because the payments have been made but have not yet been expensed, (2) for transactions with a net expected recovery, the addition of claim payments that have been made (and therefore are not included in expected loss to be paid) that are expected to be recovered in the future (and therefore have also reduced expected loss to be paid), and (3) loss reserves that have already been established (and therefore expensed but not yet paid).

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

Reconciliation of Present Value of Net Expected Loss to be Paid

and Net Present Value of Net Expected Loss to be Expensed

	As of March 31, 2012 (in millions)
Net expected loss to be paid	$ 752.4
Less: net expected loss to be paid for FG VIEs	(155.5)
Total	907.9
Contra-paid, net	71.2
Salvage and subrogation recoverable	367.3
Ceded salvage and subrogation recoverable(1)	(42.9)
Loss and LAE reserve	(951.3)
Reinsurance recoverable on unpaid losses	151.6
Net expected loss to be expensed(2)	$ 503.8

(1) Recorded in reinsurance balances payable on the consolidated balance sheet.

(2) Excludes $211.0 million related to consolidated FG VIEs.

The Company s Approach to Projecting Losses in U.S. RMBS

The Company projects losses on its insured U.S. RMBS on a transaction-by-transaction basis by projecting the performance of the underlying pool of mortgages over time and then applying the structural features (i.e., payment priorities and tranching) of the RMBS to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates. For transactions where the Company projects it will receive recoveries from providers of R&W, it projects the amount of recoveries and either

establishes a recovery for claims already paid or reduces its projected claim payments accordingly.

The further behind a mortgage borrower falls in making payments, the more likely it is that he or she will default. The rate at which borrowers from a particular delinquency category (number of monthly payments behind) eventually default is referred to as the liquidation rate. Liquidation rates may be derived from observed roll rates, which are the rates at which loans progress from one delinquency category to the next and eventually to default and liquidation. The Company applies liquidation rates to the mortgage loan collateral in each delinquency category and makes certain timing assumptions to project near-term mortgage collateral defaults from loans that are currently delinquent.

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default and when by first converting the projected near term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates, then projecting how the conditional default rates will develop over time. Loans that are defaulted pursuant to the conditional default rate after the liquidation of currently delinquent loans represent defaults of currently performing loans. A conditional default rate is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (or collateral pool balance). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal repayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector based on its experience to date. Further detail regarding the assumptions and variables the Company used to project collateral losses in its U.S. RMBS portfolio may be found below in the sections *U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien* and *U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM, Subprime and Prime.*

The Company is in the process of enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools. The Company calculates a credit from the RMBS issuer for such recoveries where the R&W were provided by an entity the Company believes to be financially viable and where the Company already has access or

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believes it will attain access to the underlying mortgage loan files. Where the Company has an agreement with an R&W provider (e.g., the Bank of America Agreement) or where it is in advanced discussions on a potential agreement, that credit is based on the agreement or potential agreement. In second lien RMBS transactions where there is no agreement or advanced discussions, this credit is based on a percentage of actual repurchase rates achieved across those transactions where material repurchases have been made, while in first lien RMBS transactions where there is no agreement or advanced discussions, this credit is estimated by reducing collateral losses projected by the Company to reflect a percentage of the recoveries the Company believes it will achieve, based on the number of breaches identified to date and incorporating scenarios based on the amounts the Company was able to negotiate under the Bank of America Agreement. The first lien approach is different from the second lien approach because the Company s first lien transactions have multiple tranches and a more complicated method is required to correctly allocate credit to each tranche. In each case, the credit is a function of the projected lifetime collateral losses in the collateral pool, so an increase in projected collateral losses generally increases the R&W credit calculated by the Company for the RMBS issuer. Further detail regarding how the Company calculates these credits may be found under *Breaches of Representations and Warranties* below.

The Company projects the overall future cash flow from a collateral pool by adjusting the payment stream from the principal and interest contractually due on the underlying mortgages for (a) the collateral losses it projects as described above, (b) assumed voluntary prepayments and (c) recoveries for breaches of R&W as described above. The Company then applies an individual model of the structure of the transaction to the projected future cash flow from that transaction s collateral pool to project the Company s future claims and claim reimbursements for that individual transaction. Finally, the projected claims and reimbursements are discounted using risk-free rates. As noted above, the Company runs several sets of assumptions regarding mortgage collateral performance, or scenarios, and probability weights them.

First Quarter-End 2012 U.S. RMBS Loss Projections

The shape of the RMBS loss projection curves used by the Company assume that the housing and mortgage markets will eventually improve. The Company retained the same general shape of the RMBS loss projection curves at March 31, 2012 as December 31, 2011, reflecting the Company s view, based on its observation of continued elevated levels of early stage delinquencies, that the housing and mortgage market recovery is occurring at a slower than previously expected pace.

The scenarios the Company used to project RMBS collateral losses for second lien RMBS transactions at March 31, 2012 were essentially the same as those it used at December 31, 2011, except that based on its observation of the continued elevated levels of early stage delinquencies, as noted above, the Company retained the same general shape of its RMBS loss projection curves. This had the effect of reflecting a slower

recovery in the housing market than had been assumed at December 31, 2011.

The Company used the same general approach to project RMBS collateral losses for first lien RMBS transactions at March 31, 2012 as it did at December 31, 2011, except that, as noted above, based on its observation of the continued elevated levels of early stage delinquencies, the Company retained the same general shape of its RMBS loss projection curves. This had the effect of reflecting a slower recovery in the housing market than had been assumed at December 31, 2011.

The Company also used generally the same methodology to project the credit received for recoveries in R&W at March 31, 2012 as December 31, 2011. The primary differences relate to the refinement of the calculation of benefits due to potential agreements with R&W providers with which it is having discussions.

U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien

The Company insures two types of second lien RMBS: those secured by HELOCs and those secured by closed end second lien mortgages. HELOCs are revolving lines of credit generally secured by a second lien on a one to four family home. A mortgage for a fixed amount secured by a second lien on a one to four family home is generally referred to as a closed end second lien. Both first lien RMBS and second lien RMBS sometimes include a portion of loan collateral with a different priority than the majority of the collateral. The Company has material exposure to second lien mortgage loans originated and serviced by a number of parties, but the Company s most significant second lien exposure is to HELOCs originated and serviced by Countrywide, a subsidiary of Bank of America. See Breaches of Representations and Warranties.

The delinquency performance of HELOC and closed end second lien exposures included in transactions insured by the Company began to deteriorate in 2007, and such transactions, particularly those originated in the period from 2005 through 2007, continue to perform below the Company s original underwriting expectations. While insured securities benefit

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from structural protections within the transactions designed to absorb collateral losses in excess of previous historically high levels, in many second lien RMBS projected losses now exceed those structural protections.

The Company believes the primary variables affecting its expected losses in second lien RMBS transactions are the amount and timing of future losses in the collateral pool supporting the transactions and the amount of loans repurchased for breaches of R&W (or agreements with R&W providers related to such obligations). Expected losses are also a function of the structure of the transaction; the voluntary prepayment rate (typically also referred to as conditional prepayment rate of the collateral); the interest rate environment; and assumptions about the draw rate and loss severity. These variables are interrelated, difficult to predict and subject to considerable volatility. If actual experience differs from the Company s assumptions, the losses incurred could be materially different from the estimate. The Company continues to update its evaluation of these exposures as new information becomes available.

The following table shows the key assumptions used in the calculation of estimated expected loss to be paid for direct vintage 2004 - 2008 second lien U.S. RMBS.

Key Assumptions in Base Case Expected Loss Estimates

Second Lien RMBS(1)

HELOC Key Variables	As of March 31, 2012	As of December 31, 2011
Plateau conditional default rate	3.3 26.3%	4.0 27.4%
Final conditional default rate trended down to	0.4 3.2%	0.4 3.2%
Expected period until final conditional default rate	36 months	36 months
Initial conditional prepayment rate	2.6 15.1%	1.4 25.8%
Final conditional prepayment rate	10%	10%
Loss severity	98%	98%
Initial draw rate	0.0 7.8%	0.0 15.3%

Closed end second lien Key Variables	As of March 31, 2012	As of December 31, 2011
Plateau conditional default rate	5.4 24.9%	6.9 24.8%
Final conditional default rate trended down to	3.3 9.2%	3.5 9.2%
Expected period until final conditional default rate	36 months	36 months
Initial conditional prepayment rate	1.2 8.6%	0.9 14.7%
Final conditional prepayment rate	10%	10%
Loss severity	98%	98%

(1) Represents assumptions for most heavily weighted scenario (the base case).

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally charged off (treated as defaulted) by the securitization s servicer once the loan is 180 days past due. Most second lien transactions report the amount of loans in five monthly delinquency categories (*i.e.*, 30-59 days past due, 60-89 days past due, 90-119 days past due, 120-149 days past due and 150-179 days past due). The Company estimates the amount of loans that will default over the next five months by calculating current representative liquidation rates (the percent of loans in a given delinquency status that are assumed to ultimately default) from selected representative transactions and then applying an average of the preceding 12 months liquidation rates to the amount of loans in the delinquency categories. The amount of loans projected to default in the first through fifth months is expressed as a conditional default rate. The first four months conditional default rate is calculated by applying the liquidation rates to the current period past due balances (i.e., the 150-179 day balance is liquidated in the first projected month, the 120-149 day balance is liquidated in the second projected month, the 90-119 day balance is liquidated in the third projected month and the 60-89 day balance is liquidated in the fourth projected month). For the fifth month the conditional default rate is calculated using the average 30-59 day past due balances for the prior three months. An average of the third, fourth and fifth month conditional default rates is then used as the basis for the plateau period that follows the embedded five months of losses.

As of March 31, 2012, for the base case scenario, the conditional default rate (the plateau conditional default rate) was held constant for one month. Once the plateau period has ended, the conditional default rate is assumed to gradually trend down in uniform increments to its final long-term steady state conditional default rate. In the base case scenario, the time over which the conditional default rate trends down to its final conditional default rate is 30 months. Therefore, the total

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stress period for second lien transactions is 36 months, comprising five months of delinquent data, a one month plateau period and 30 months of decrease to the steady state conditional default rate. This is the same as December 31, 2011. The long-term steady state conditional default rates are calculated as the constant conditional default rates that would have yielded the amount of losses originally expected at underwriting. When a second lien loan defaults, there is generally a very low recovery. Based on current expectations of future performance, the Company assumes that it will only recover 2% of the collateral, the same as December 31, 2011.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected (which is a function of the conditional default rate and the loan balance over time) as well as the amount of excess spread (which is the excess of the interest paid by the borrowers on the underlying loan over the amount of interest and expenses owed on the insured obligations). In the base case, the current conditional prepayment rate is assumed to continue until the end of the plateau before gradually increasing to the final conditional prepayment rate over the same period the conditional default rate decreases. For transactions where the initial conditional prepayment rate is higher than the final conditional prepayment rate, the initial conditional prepayment rate is held constant. The final conditional prepayment rate is assumed to be 10% for both HELOC and closed end second lien transactions. This level is much higher than current rates for most transactions, but lower than the historical average, which reflects the Company s continued uncertainty about the projected performance of the borrowers in these transactions. This pattern is consistent with how the Company modeled the conditional prepayment rate at December 31, 2011. To the extent that prepayments differ from projected levels it could materially change the Company s projected excess spread and losses.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices, and HELOC draw rates (the amount of new advances provided on existing HELOCs expressed as a percentage of current outstanding advances). For HELOC transactions, the draw rate is assumed to decline from the current level to a final draw rate over a period of three months. The final draw rates were assumed to range from 0.0% to 1.5% in all but one instance where the final draw rate was 3.9%.

In estimating expected losses, the Company modeled and probability weighted three possible conditional default rate curves applicable to the period preceding the return to the long-term steady state conditional default rate, the same three scenarios and weightings as December 31, 2011. Given that draw rates have been reduced to levels below the historical average and that loss severities in these products have been higher than anticipated at inception, the Company believes that the level of the elevated conditional default rate and the length of time it will persist is the primary driver behind the likely amount of losses the collateral will suffer (before considering the effects of repurchases of ineligible loans). The Company continues to evaluate the assumptions affecting its modeling results.

At March 31, 2012, the Company s base case assumed a one month conditional default rate plateau and a 30 month ramp-down (for a total stress period of 36 months), the same as December 31, 2011. Increasing the conditional default rate plateau to four months and keeping the ramp-down at 30-months (for a total stress period of 39 months) would increase the expected loss by approximately $49.9 million for HELOC transactions and $4.8 million for closed end second lien transactions. On the other hand, keeping the conditional default rate plateau at one month but decreasing the length of the conditional default rate ramp-down to a 24 month assumption (for a total stress period of 30 months) would decrease the expected loss by approximately $46.7 million for HELOC transactions and $2.6 million for closed-end second lien transactions.

U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM, Subprime and Prime

First lien RMBS are generally categorized in accordance with the characteristics of the first lien mortgage loans on one-to-four family homes supporting the transactions. The collateral supporting subprime RMBS transactions consists of first-lien residential mortgage loans made to subprime borrowers. A subprime borrower is one considered to be a higher risk credit based on credit scores or other risk characteristics. Another type of RMBS transaction is generally referred to as Alt-A first lien. The collateral supporting such transactions consists of first-lien residential mortgage loans made to prime quality borrowers who lack certain ancillary characteristics that would make them prime. When more than 66% of the loans originally included in the pool are mortgage loans with an option to make a minimum payment that has the potential to amortize the loan negatively (*i.e*., increase the amount of principal owed), the transaction is referred to as an Option ARM. Finally, transactions may be composed primarily of loans made to prime borrowers. First lien RMBS sometimes include a portion of loan collateral that differs in priority from the majority of the collateral.

The performance of the Company s first lien RMBS exposures began to deteriorate in 2007 and such transactions, particularly those originated in the period from 2005 through 2007 continue to perform below the Company s original

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underwriting expectations. The Company currently projects first lien collateral losses many times those expected at the time of underwriting. While insured securities benefited from structural protections within the transactions designed to absorb some of the collateral losses, in many first lien RMBS transactions, projected losses exceed those structural protections.

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are delinquent or in foreclosure or where the loan has been foreclosed and the RMBS issuer owns the underlying real estate). An increase in non-performing loans beyond that projected in the previous period is one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various delinquency categories. The Company arrived at its liquidation rates based on data in Loan Performance and assumptions about how delays in the foreclosure process may ultimately affect the rate at which loans are liquidated. The Loan Performance securities databases, provided by CoreLogic, Inc., are said to be the industry s largest and most comprehensive and include loan-level data on more than $2.2 trillion in mortgage-backed and asset-backed securities (more than 90% of the market) as well as analytical tools designed to help evaluate that data. The liquidation rate is a standard industry measure that is used to estimate the number of loans in a given aging category that will default within a specified time period. The Company projects these liquidations to occur over two years.The Company used the same liquidation rates for March 31, 2012 as it did for December 31, 2011. The following table shows liquidation assumptions for various delinquency categories.

First Lien Liquidation Rates

	As of March 31, 2012	As of December 31, 2011
30 59 Days Delinquent		
Alt A and Prime	35%	35%
Option ARM	50	50
Subprime	30	30
60 89 Days Delinquent		
Alt A and Prime	55	55
Option ARM	65	65
Subprime	45	45
90+ Days Delinquent		
Alt A and Prime	65	65

Option ARM	75	75
Subprime	60	60
Bankruptcy		
Alt A and Prime	55	55
Option ARM	70	70
Subprime	50	50
Foreclosure		
Alt A and Prime	85	85
Option ARM	85	85
Subprime	80	80
Real Estate Owned (REO)		
All	100	100

While the Company uses liquidation rates as described above to project defaults of non-performing loans, it projects defaults on presently current loans by applying a conditional default rate trend. The start of that conditional default rate trend is based on the defaults the Company projects will emerge from currently nonperforming loans. The total amount of expected defaults from the non-performing loans is translated into a constant conditional default rate (*i.e.*, the conditional default rate plateau), which, if applied for each of the next 24 months, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The conditional default rate thus calculated individually on the delinquent collateral pool for each RMBS is then used as the starting point for the conditional default rate curve used to project defaults of the presently performing loans.

In the base case, each transaction s conditional default rate is projected to improve over 12 months to an intermediate conditional default rate (calculated as 20% of its conditional default rate plateau); that intermediate conditional default rate is held constant for 36 months and then trails off in steps to a final conditional default rate of 5% of the conditional default rate plateau. Under the Company s methodology, defaults projected to occur in the first 24 months represent defaults that can be attributed to loans that are currently delinquent or in foreclosure, while the defaults projected to

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occur using the projected conditional default rate trend after the first 24 month period represent defaults attributable to borrowers that are currently performing.

Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions have reached historic high levels, and the Company is assuming that these high levels generally will continue for another year (in the case of subprime loans, the Company assumes the unprecedented 90% loss severity rate will continue for six months then drop to 80% for six months before following the ramp described below). The Company determines its initial loss severity based on actual recent experience. (The Company s loss severity assumptions for March 31, 2012 were the same as it used for December 31, 2011.) The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning in March 2013, and in the base case scenario, decline over two years to 40%.

The following table shows the key assumptions used in the calculation of expected loss to be paid for direct vintage 2004 - 2008 first lien U.S. RMBS.

Key Assumptions in Base Case Expected Loss Estimates

First Lien RMBS

	As of March 31, 2012	As of December 31, 2011
Alt-A First Lien		
Plateau conditional default rate	2.7% 33.9%	2.8% 41.3%
Intermediate conditional default rate	0.5% 6.8%	0.6% 8.3%
Final conditional default rate	0.1% 1.7%	0.1% 2.1%
Initial loss severity	65%	65%
Initial conditional prepayment rate	0.0% 34.1%	0.0% 24.4%
Final conditional prepayment rate	15%	15%
Option ARM		
Plateau conditional default rate	9.7% 32.2%	11.7% 31.5%

Intermediate conditional default rate	1.9% 6.4%	2.3% 6.3%
Final conditional default rate	0.5% 1.6%	0.6% 1.6%
Initial loss severity	65%	65%
Initial conditional prepayment rate	0.1% 5.3%	0.3% 10.8%
Final conditional prepayment rate	15%	15%
Subprime		
Plateau conditional default rate	8.3% 30.0%	8.6% 29.9%
Intermediate conditional default rate	1.7% 6.0%	1.7% 6.0%
Final conditional default rate	0.4% 1.5%	0.4% 1.5%
Initial loss severity	90%	90%
Initial conditional prepayment rate	0.0% 8.8%	0.0% 16.3%
Final conditional prepayment rate	15%	15%

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected (since that amount is a function of the conditional default rate and the loan balance over time) as well as the amount of excess spread (the amount by which the interest paid by the borrowers on the underlying loan exceeds the amount of interest owed on the insured obligations). The assumption for the conditional prepayment rate follows a similar pattern to that of the conditional default rate. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final conditional prepayment rate, which is assumed to be either 10% or 15% depending on the scenario run. For transactions where the initial conditional prepayment rate is higher than the final conditional prepayment rate, the initial conditional prepayment rate is held constant.

The ultimate performance of the Company s first lien RMBS transactions remains highly uncertain and may be subject to considerable volatility due to the influence of many factors, including the level and timing of loan defaults, changes in housing prices and other variables. The Company will continue to monitor the performance of its RMBS exposures and will adjust the loss projections for those transactions based on actual performance and management s estimates of future performance.

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In estimating expected losses, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast a recovery is expected to occur. One of the variables used to model sensitivities was how quickly the conditional default rate returned to its modeled equilibrium, which was defined as 5% of the current conditional default rate. The Company also stressed conditional prepayment rates and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios (including its base case) at March 31, 2012, the same as December 31, 2011. In a somewhat more stressful environment than that of the base case, where the conditional default rate plateau was extended three months (to be 27 months long) before the same more gradual conditional default rate recovery and loss severities were assumed to recover over four rather than two years (and subprime loss severities were assumed to recover only to 60%), expected loss to be paid would increase from current projections by approximately $26.7 million for Alt-A first liens, $31.0 million for Option ARM, $120.0 million for subprime and $0.7 million for prime transactions. In an even more stressful scenario where other loss severities were assumed to recover over eight years (and subprime severities were assumed to recover only to 60% and other assumptions were the same as the other stress scenario), expected loss to be paid would increase from current projections by approximately $67.8 million for Alt-A first liens, $65.9 million for Option ARM, $167.1 million for subprime and $2.3 million for prime transactions. The Company also considered two scenarios where the recovery was faster than in its base case. In a scenario with a somewhat less stressful environment than the base case, where conditional default rate recovery was somewhat less gradual and the initial subprime loss severity rate was assumed to be 80% for 12 months and was assumed to recover to 40% over two years (the same scenario used for the base case at December 31, 2010), expected loss to be paid would decrease from current projections by approximately $5.2 million for Alt-A first lien, $30.1 million for Option ARM, $22.1 million for subprime and $0.2 million for prime transactions. In an even less stressful scenario where the conditional default rate plateau was three months shorter (21 months, effectively assuming that liquidation rates would improve) and the conditional default rate recovery was more pronounced, expected loss to be paid would decrease from current projections by approximately $24.4 million for Alt-A first lien, $67.7 million for Option ARM, $46.3 million for subprime and $0.6 million for prime transactions.

Breaches of Representations and Warranties

The Company is pursuing reimbursements for breaches of R&W regarding loan characteristics. Performance of the collateral underlying certain first and second lien securitizations has substantially differed from the Company s original expectations. The Company has employed several loan file diligence firms and law firms as well as devoted internal resources to review the mortgage files surrounding many of the defaulted loans. The Company s success in these efforts has resulted in three negotiated agreements in respect of the Company s R&W claims, including one on April 14, 2011 with Bank of America and one on May 8, 2012 with Deutsche Bank AG as described under Deutsche Bank Agreement in Note 2, Business Changes, Uncertainties and Accounting Developments.

For the RMBS transactions as to which the Company had not settled its claims for breaches of R&W as of March 31, 2012, the Company had performed a detailed review of approximately 16,500 second lien and 20,300 first lien non-performing loan files, representing approximately $1.1 billion in second lien and $5.9 billion in first lien outstanding par of non-performing loans underlying insured transactions. The Company identified approximately 15,300 second lien transaction loan files and approximately 18,100 first lien transaction loan files that breached one or more R&W regarding the characteristics of the loans, such as misrepresentation of income or employment of the borrower, occupancy, undisclosed debt and non-compliance with underwriting guidelines at loan origination. The Company continues to review new files as new loans become non-performing and as new loan files are made available to it. The Company generally obtains the loan files from the originators or servicers (including master servicers). In some cases, the Company requests loan files via the trustee, which then requests the loan files from the originators and/or servicers. On second lien loans, the Company requests loan files for all charged-off loans. On first lien loans, the Company requests loan files for all severely (60+ days) delinquent loans and all liquidated loans. Recently, the Company started requesting loan files for all the loans (both performing and non-performing) in certain deals to limit the number of requests for additional loan files as the transactions season and loans charge-off, become 60+ days delinquent or are liquidated. (The Company takes no repurchase credit for R&W breaches on loans that are expected to continue to perform.) As of March 31, 2012, excluding settled transactions, the Company had reached agreement with R&W providers for the repurchase of $41.8 million of second lien and $74.8 million of first lien mortgage loans. The $41.8 million for second lien loans represents the calculated repurchase price for 514 loans and the $74.8 million for first lien loans represents the calculated repurchase price for 285 loans. The repurchase proceeds are paid to the RMBS transactions and distributed in accordance with the payment priorities set out in the transaction agreements, so the proceeds are not necessarily allocated to the Company on a dollar-for-dollar basis. Much of the repurchase proceeds already agreed to by R&W providers other than Bank of America have already been paid to the RMBS transactions.

The Company has included in its net expected loss estimates as of March 31, 2012 an estimated benefit from loan repurchases related to breaches of R&W of $1.4 billion, which includes amounts from Bank of America. Where the

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Company has an agreement with an R&W provider (e.g., the Bank of America Agreement) or, where potential recoveries may be higher due to settlements, that benefit is based on the agreement or probability of a potential agreement. For other transactions, the amount of benefit recorded as a reduction of expected losses was calculated by extrapolating each transaction s breach rate on defaulted loans to projected defaults and applying a percentage of the recoveries the Company believes it will receive. Proceeds projected to be reimbursed to the Company on transactions where the Company has already paid claims are viewed as a recovery on paid losses. For transactions where the Company has not already paid claims, projected recoveries reduce projected loss estimates. In either case, projected recoveries have no effect on the amount of the Company s exposure. These amounts reflect payments made pursuant to the negotiated transaction agreements and not payments made pursuant to legal settlements. See Recovery Litigation below for a description of the related legal proceedings the Company has commenced.

The Company did not incorporate any gain contingencies or damages paid from potential litigation in its estimated repurchases. The amount the Company will ultimately recover related to contractual R&W is uncertain and subject to a number of factors including the counterparty s ability to pay, the number and loss amount of loans determined to have breached R&W and, potentially, negotiated settlements or litigation recoveries. As such, the Company s estimate of recoveries is uncertain and actual amounts realized may differ significantly from these estimates. In arriving at the expected recovery from breaches of R&W, the Company considered the creditworthiness of the provider of the R&W, the number of breaches found on defaulted loans, the success rate in resolving these breaches across those transactions where material repurchases have been made and the potential amount of time until the recovery is realized.

The calculation of expected recovery from breaches of R&W involved a variety of scenarios which ranged from the Company recovering substantially all of the losses it incurred due to violations of R&W to the Company realizing limited recoveries. The Company did not include any recoveries related to breaches of R&W in amounts greater than the losses it paid or expected to pay under any given cash flow scenario. These scenarios were probability weighted in order to determine the recovery incorporated into the Company s estimate of expected losses. This approach was used for both loans that had already defaulted and those assumed to default in the future. As noted above, in circumstances where potential recoveries may be higher due to settlements, the recovery assumption is based on the probability of the potential agreement.

Balance Sheet Classification of R&W Benefit, Net of Reinsurance

	As of March 31, 2012			As of December 31, 2011		
	For all Financial	Effect of Consolidating	Reported on Balance Sheet	For all Financial	Effect of Consolidating	Reported on Balance Sheet

	Guaranty Insurance Contracts	FG VIEs		Guaranty Insurance Contracts	FG VIEs	
	(dollars in millions)					
Salvage and subrogation recoverable	$ 389.1	$ (216.4)	$ 172.7	$ 401.8	$ (197.3)	$ 204.5
Loss and LAE reserve	818.5	(74.5)	744.0	857.5	(74.6)	782.9
Unearned premium reserve	190.0	(56.2)	133.8	175.5	(49.9)	125.6
Total	$ 1,397.6	$ (347.1)	$ 1,050.5	$ 1,434.8	$ (321.8)	$ 1,113.0

The following table represents the Company s total estimated R&W recoveries netted in expected loss to be paid, from defective mortgage loans included in certain first and second lien U.S. RMBS loan securitizations that it insures.

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4. Financial Guaranty Insurance Contracts (Continued)

Roll Forward of Estimated Benefit from Recoveries from Representation and Warranty Breaches,

Net of Reinsurance

	Future Net R&W Benefit as of December 31, 2011	R&W Development and Accretion of Discount During 2012	R&W Recovered During 2012(1)	Future Net R&W Benefit as of March 31, 2012(2)
		(in millions)		
Prime first lien	$ 3.0	$ 0.6	$	$ 3.6
Alt-A first lien	202.7	9.4	(1.0)	211.1
Option ARM	713.9	27.5	(17.6)	723.8
Subprime	101.5	(5.1)		96.4
Closed end second lien	223.8	(2.2)		221.6
HELOC	189.9	2.2	(51.0)	141.1
Total	$ 1,434.8	$ 32.4	$ (69.6)	$ 1,397.6

	Future Net R&W Benefit as of December 31, 2010	R&W Development and Accretion of Discount During 2011	R&W Recovered During 2011(1)	Future Net R&W Benefit as of March 31, 2011(2)
		(in millions)		
Prime first lien	$ 1.1	$ 1.2	$	$ 2.3
Alt-A first lien	81.0	39.7		120.7
Option ARM	309.3	335.3	(25.6)	619.0
Subprime	26.8	54.3		81.1
Closed end second lien	178.2	95.0		273.2
HELOC	1,004.1	154.5	(33.9)	1,124.7
Total	$ 1,600.5	$ 680.0	$ (59.5)	$ 2,221.0

(1) Gross amounts recovered were $77.2 million and $64.2 million in First Quarter 2012 and 2011, respectively.

(2) Includes R&W benefit of $482.1 million as of March 31, 2012 and $1,324.3 million as of March 31, 2011 attributable to transactions covered by the Bank of America Agreement.

Financial Guaranty Insurance U.S. RMBS Risks with R&W Benefit

	Number of Risks (1) as of		Debt Service as of	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
			(dollars in millions)	
Prime first lien	1	1	$ 40.5	$ 41.9
Alt-A first lien	21	22	1,670.0	1,732.6
Option ARM	11	12	1,337.6	1,459.7
Subprime	5	5	825.7	905.8
Closed-end second lien	4	4	262.8	361.4
HELOC (2)	7	15	731.2	2,978.5
Total	49	59	$ 4,867.8	$ 7,479.9

(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments.

(2) The decline in number of HELOC risks and debt service relates to the final payment from Bank of America for covered HELOC transactions.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

The following table provides a breakdown of the development and accretion amount in the roll forward of estimated recoveries associated with alleged breaches of R&W.

	First Quarter	
	2012	2011
	(in millions)	
Inclusion of new deals with breaches of R&W during period	$	$ 107.1
Change in recovery assumptions as the result of additional file review and recovery success	79.7	198.4
Estimated increase (decrease) in defaults that will result in additional (lower) breaches	(51.3)	39.8
Results of settlements		334.1
Accretion of discount on balance	4.0	0.6
Total	$ 32.4	$ 680.0

The R&W development during First Quarter 2012 resulted in large part from the change in recovery assumption related to a select group of transactions where the Company believes there is an increased probability of a settlement. The remainder of the development relates to changes in collateral losses.

The Company assumes that recoveries on transactions backed by HELOC and closed-end second lien loans that were not subject to the Bank of America Agreement or projected settlements will occur in two to four years from the balance sheet date depending on the scenarios and that recoveries on transactions backed by Alt-A first lien, Option ARM and Subprime loans will occur as claims are paid over the life of the transactions. Recoveries on second lien transactions subject to the Bank of America Agreement were paid in full by March 31, 2012.

As of March 31, 2012, cumulative collateral losses on the 20 first lien RMBS transactions executed as financial guaranties and subject to a comprehensive agreement with Bank of America Corporation and its subsidiaries, including Countrywide Financial Corporation and its subsidiaries (collectively, Bank of America) (the Bank of America Agreement) were approximately $2.1 billion. The Company estimates that cumulative projected collateral losses for these first lien transactions will be $4.8 billion, which will result in estimated gross expected losses to the Company of $626.5 million before considering R&W recoveries from Bank of America, and $125.3 million after considering such R&W recoveries, all on a discounted basis. The Bank of America Agreement covers cumulative collateral losses up to $6.6 billion for these transactions plus one CDS transaction. As of March 31, 2012, and before cessions to reinsurers, AGC and AGM had collected $76.3 million, sent invoices for an additional $13.9 million in claims paid in March 2012 and expected to collect an additional $487.2 million, on a discounted

basis, for covered first lien transactions under the Bank of America Agreement. Bank of America had placed approximately $1.0 billion of eligible assets in trust in order to collateralize the reimbursement obligation relating to these and one covered first lien CDS transaction. The amount of assets required to be posted may increase or decrease from time to time as determined by rating agency requirements.

Student Loan Transactions

The Company has insured or reinsured $2.8 billion net par of student loan securitizations, $1.3 billion issued by private issuers and classified as asset-backed and $1.5 billion issued by public authorities and classified as public finance. Of these amounts, $170.7 million and $609.6 million, respectively, are rated BIG. The Company is projecting approximately $65.4 million of net expected loss to be paid in these portfolios. In general, the losses are due to: (i) the poor credit performance of private student loan collateral; (ii) high interest rates on auction rate securities with respect to which the auctions have failed or (iii) high interest rates on variable rate demand obligations (VRDO) that have been put to the liquidity provider by the holder and are therefore bearing high bank bond interest rates. The largest of these losses was approximately $24.7 million and related to a transaction backed by a pool of private student loans ceded to AG Re by another monoline insurer. The guaranteed bonds were issued as auction rate securities that now bear a high rate of interest due to the downgrade of the primary insurer s financial strength rating. Further, the underlying loan collateral has performed below expectations. The decrease of approximately $9.2 million in net expected loss during First Quarter 2012 is primarily due to the increase in risk free rates used for discounting as well as some favorable experience with respect to prospective commutations potentially achieved by the primary insurer on some transactions.

Trust Preferred Securities Collateralized Debt Obligations

The Company has insured or reinsured $1.8 billion of net par of collateralized debt obligations (CDOs) backed by TruPS and similar debt instruments, or TruPS CDOs. Of that amount, $796.7 million is rated BIG. The underlying collateral in the TruPS CDOs consists of subordinated debt instruments such as TruPS issued by bank holding companies and

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

similar instruments issued by insurance companies, real estate investment trusts (REITs) and other real estate related issuers.

The Company projects losses for TruPS CDOs by projecting the performance of the asset pools across several scenarios (which it weights) and applying the CDO structures to the resulting cash flows. At March 31, 2012, the Company has projected expected losses to be paid for TruPS CDOs that are accounted for as financial guaranty insurance of $8.5 million. The decrease of approximately $4.7 million in net expected loss during First Quarter 2012 was driven primarily by the increase in the risk free rate used to discount loss projections (which was partially offset by refinements and updates of the model used to project losses).

XXX Life Insurance Transactions

The Company s $2.3 billion net par of XXX life insurance transactions includes, as of March 31, 2012, $882.5 million rated BIG. The BIG XXX life insurance reserve securitizations are based on discrete blocks of individual life insurance business. In each such transaction the monies raised by the sale of the bonds insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The monies are invested at inception in accounts managed by third-party investment managers.

The BIG XXX life insurance transactions consist of two transactions: Ballantyne Re p.l.c and Orkney Re II p.l.c. These transactions had material amounts of their assets invested in U.S. RMBS transactions. Based on its analysis of the information currently available, including estimates of future investment performance provided by the investment manager, and projected credit impairments on the invested assets and performance of the blocks of life insurance business at March 31, 2012, the Company s projected net expected loss to be paid is $122.7 million. The decrease of $6.8 million during First Quarter 2012 is due primarily to the increase in the risk free rate used to discount loss projections (offset in part by loss development related to updated mortality experience).

Other Notable Loss or Claim Transactions

The Company projects losses on, or is monitoring particularly closely, a number of other individual transactions, the most significant of which are described in the following paragraphs.

As of March 31, 2012 the Company had exposure to sovereign debt of Greece through financial guarantees of 200.0 million of debt (165.1 million on a net basis) due in 2037 with a 4.5% fixed coupon and 114.1 million of inflation-linked debt (52.6 million on a net basis) due in 2057 with a 2.085% coupon. On February 24, 2012, Greece announced the terms of exchange offers and consent solicitations that requested the voluntary participation by holders of certain Greek bonds, including the insured 2037 and 2057 bonds, in an exchange that would result in the cancellation of such bonds in exchange for a package of replacement securities with lower principal amounts, and requested the consent of holders to amendments of the bonds that could be used to impose the same terms on holders that do not voluntarily participate in the exchange. In March 2012, the exchange was imposed through collective action clauses on the Company s exposure to the 2037 bonds. In April 2012, the Company consented to the exchange with respect to its exposure on the 2057 bonds. The exchanges have caused the Company to recognize inception to date economic loss development of $334.1 million gross of reinsurance and $231.9 million, net of reinsurance and net of salvage received in the form of such exchanged securities, as of March 31, 2012. This represents an increase from the equivalent amounts of $64.7 million gross of reinsurance and $42.6 million net of reinsurance as of December 31, 2011.

The Company has net exposure to Jefferson County, Alabama of $710.4 million. On November 9, 2011, Jefferson County filed for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Alabama (Southern Division).

- Most of the Company s net exposure relates to $478.5 million of warrants issued by Jefferson County in respect of its sewer system, of which $205.4 million is direct and $273.1 million is assumed. Jefferson County s sewer revenue warrants are secured by a pledge of the net revenues of the sewer system, and the bankruptcy court has affirmed that the net revenues constitute special revenue under Chapter 9. Therefore, the net revenues of the sewer system are not subject to an automatic stay during the pendency of the County s bankruptcy case. However, whether sufficient net revenues will be made available for the payment of regularly scheduled debt service will be a function of the bankruptcy court s determination of necessary operating expenses under the bankruptcy code and the valuation of the sewer revenue stream which the bankruptcy court ultimately approves. The Company has projected loss to be paid of $50.4 million as of March 31, 2012 and $26.7 million as of December 31, 2011 on the sewer revenue warrants, which is an estimate based on a number of

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

probability-weighted scenarios. The economic development of $23.7 million during First Quarter 2012 was due primarily to market factors, namely the increase in the discount rate and the increase in the forward London Interbank Offered Rate (LIBOR) curve.

- The Company s remaining net exposure of $231.8 million relates to bonds issued by Jefferson County that are secured by, or payable from, certain revenues, taxes or lease payments that may have the benefit of a statutory lien or a lien on special revenues or other collateral. Of this, $168.1 million is direct and $63.7 million is assumed. The Company projects less than $1 million of expected loss to be paid as of March, 31 2012 and December 31, 2011 on these bonds.

The Company expects that bondholder rights will be enforced. However, due to the early stage of the bankruptcy proceeding, and the circumstances surrounding Jefferson County s debt, the nature of the action is uncertain. The Company will continue to analyze developments in the matter closely.

As of March 31, 2012 the Company had purchased all of the Company s net outstanding insured bonds backed by telephone directory yellow pages (both print and digital) in various jurisdictions with a net par of $110 million and guaranteed by Ambac Assurance Corporation (Ambac).

The Company insures a total of $326.9 million net par of securities backed by manufactured housing loans, a total of $221.3 million rated BIG. The Company has expected loss to be paid of $16.6 million as of March 31, 2012 compared to $18.4 million as of December 31, 2011 on two direct transactions from 2000-2001 with an aggregate net par of $140.9 million and one assumed transaction from 2001 with an aggregate net par of $4.9 million.

The Company has $168.8 million of net par exposure to The City of Harrisburg, Pennsylvania, of which $94.8 million is BIG. The Company has paid $8.0 million in net claims to date, and expects a full recovery.

Recovery Litigation

RMBS Transactions

As of March 31, 2012, AGM and AGC have filed lawsuits with regard to the following U.S. RMBS transactions insured by them, alleging breaches of R&W both in respect of the underlying loans in the transactions and the accuracy of the information provided to AGM and AGC, and failure to cure or repurchase defective loans identified by AGM and AGC to such persons:

- ACE Securities Corp. Home Equity Loan Trust, Series 2006-GP1 (a second lien transaction in which AGM has sued Deutsche Bank AG affiliates DB Structured Products, Inc. and ACE Securities Corp.);

- ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL2 and the ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL3 (both second lien transactions in which AGC has sued Deutsche Bank AG affiliates DB Structured Products, Inc. and ACE Securities Corp.);

- Flagstar Home Equity Loan Trust, Series 2005-1 and Series 2006-2 (both second lien transactions in which AGM has sued Flagstar Bank, FSB, Flagstar Capital Markets Corporation and Flagstar ABS, LLC);

- SACO I Trust 2005-GP1 (a second lien transaction in which AGC has sued JPMorgan Chase & Co. s affiliate EMC Mortgage LLC (formerly known as EMC Mortgage Corporation), J.P. Morgan Securities Inc. (formerly known as Bear, Stearns & Co. Inc.) and JPMorgan Chase Bank, N.A.); and

- Bear Stearns Asset Backed Securities I Trust 2005-AC5 and Bear Stearns Asset Backed Securities I Trust 2005-AC6 (both first lien transactions in which AGC has sued EMC Mortgage LLC).

In these lawsuits, AGM and AGC seek damages, including indemnity or reimbursement for losses.

In September 2010, AGM also filed a lawsuit in the Superior court of the State of California, County of Los Angeles, against UBS Securities LLC and Deutsche Bank Securities, Inc., as underwriters, as well as several named and

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

unnamed control persons of IndyMac Bank, FSB and related IndyMac entities, with regard to two U.S. RMBS transactions that AGM had insured, seeking damages for alleged violations of state securities laws and breach of contract, among other claims:

- IndyMac Home Equity Loan Trust 2007-H1 (a second lien transaction in which AGM has sued Deutsche Bank Securities, Inc.); and
- IndyMac IMSC Mortgage Loan Trust 2007-HOA-1 (a first lien transaction in which AGM has sued UBS Securities LLC).

In October 2011, AGM and AGC brought an action in the Supreme Court of the State of New York against DLJ Mortgage Capital, Inc. (DLJ) and Credit Suisse Securities (USA) LLC (Credit Suisse) with regard to six first lien U.S. RMBS transactions insured by them:

- CSAB Mortgage-Backed Pass Through Certificates, Series 2006-2 (AGM insured);
- CSAB Mortgage-Backed Pass Through Certificates, Series 2006-3 (AGM insured);
- CSAB Mortgage-Backed Pass Through Certificates, Series 2006-4 (AGM insured);
- CMSC Mortgage-Backed Pass Through Certificates, Series 2007-3 (AGM insured);
- CSAB Mortgage-Backed Pass Through Certificates, Series 2007-1 (AGC insured); and
- TBW Mortgage-Backed Pass Through Certificates, Series 2007-2 (AGC insured).

The complaint alleges breaches of R&W by DLJ in respect of the underlying loans in the transactions, breaches of contract by DLJ and Credit Suisse in procuring falsely inflated shadow ratings (a condition to the issuance by AGC and AGM of its policies) by providing false and misleading information to the rating agencies, and failure by DLJ to cure or repurchase defective loans identified by AGM and AGC.

In February 2012, AGM filed a complaint in the Supreme Court of the State of New York against UBS Real Estate Securities Inc. with respect to three first lien U.S. RMBS transactions it had insured:

- MASTR Adjustable Rate Mortgages Trust 2006-OA2;
- MASTR Adjustable Rate Mortgages Trust 2007-1; and
- MASTR Adjustable Rate Mortgages Trust 2007-3.

The complaint alleges breaches of R&W by UBS Real Estate in respect of the underlying loans in the transactions, breaches of UBS Real Estate s repurchase obligations with respect to the defective loans identified by AGM, and breaches of contract by UBS Real Estate in procuring falsely inflated shadow ratings (a condition to the issuance by AGM of its policies) by providing false and misleading information to the rating agencies concerning the underlying loans in the transactions.

In connection with the Deutsche Bank Agreement, Assured Guaranty will dismiss lawsuits it has filed against Deutsche Bank involving the following RMBS transactions:

- ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL2;
- ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL3; and
- IndyMac Home Equity Loan Trust 2007-H1.

The Deutsche Bank Agreement does not resolve the litigation filed by AGM against Deutsche Bank regarding the ACE Securities Corp. Home Equity Loan Trust, Series 2006-GP1 securitization transaction, which involves second lien mortgage loans originated by a third party.

XXX Life Insurance Transactions

In December 2008, Assured Guaranty (UK) Ltd. (AGUK) filed an action against J.P. Morgan Investment Management Inc. (JPMIM), the investment manager in the Orkney Re II transaction, in the Supreme Court of the State of New York alleging that JPMIM engaged in breaches of fiduciary duty, gross negligence and breaches of contract based upon its handling of the investments of Orkney Re II. After AGUK s claims were dismissed with prejudice in January 2010, AGUK was successful in its subsequent motions and appeals and, as of December 2011, all of AGUK s claims for breaches of fiduciary duty, gross negligence and contract were reinstated in full. Separately, at the trial court level, discovery is ongoing.

Public Finance Transactions

In June 2010, AGM sued JPMorgan Chase Bank, N.A. and JPMorgan Securities, Inc. (together, JPMorgan), the underwriter of debt issued by Jefferson County, in the Supreme Court of the State of New York alleging that JPMorgan induced AGM to issue its insurance policies in respect of such debt through material and fraudulent misrepresentations and omissions, including concealing that it had secured its position as underwriter and swap provider through bribes to Jefferson County commissioners and others. In December 2010, the court denied JPMorgan s motion to dismiss. AGM has filed a motion with the Jefferson County bankruptcy court to confirm that continued prosecution of the lawsuit against JPMorgan will not violate the automatic stay applicable to Jefferson County notwithstanding JPMorgan s interpleading of Jefferson County into the lawsuit. AGM is continuing its risk remediation efforts for this exposure.

In September 2010, AGM, together with TD Bank, National Association and Manufacturers and Traders Trust Company, as trustees, filed a complaint in the Court of Common Pleas of Dauphin County, Pennsylvania against The Harrisburg Authority, The City of Harrisburg, Pennsylvania, and the Treasurer of the City in connection with certain Resource Recovery Facility bonds and notes issued by The Harrisburg Authority, alleging, among other claims, breach of

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

contract by both The Harrisburg Authority and The City of Harrisburg, and seeking remedies including an order of mandamus compelling the City to satisfy its obligations on the defaulted bonds and notes and the appointment of a receiver for The Harrisburg Authority. Acting on its own, the City Council of Harrisburg filed a purported bankruptcy petition for the City in October 2011, which petition and a subsequent appeal were dismissed by the bankruptcy judge in November 2011. The City Council has appealed the dismissal of the appeal. As a result of the dismissal, however, the actions brought by AGM and the trustees against The City of Harrisburg and The Harrisburg Authority are no longer stayed. A receiver for The City of Harrisburg (the City Receiver) was appointed by the Commonwealth Court of Pennsylvania in December 2011. The City Receiver filed a motion to intervene in the mandamus action and action for the appointment of a receiver for the resource recovery facility. In March 2012, the Court of Common Pleas of Dauphin County, Pennsylvania issued an order granting the motion for the appointment of a receiver for the resource recovery facility, which order has been appealed by The Harrisburg Authority.

Net Loss Summary

The following table provides information on loss and LAE reserves net of reinsurance and salvage and subrogation recoverable on the consolidated balance sheets.

Loss and LAE Reserve (Recovery)

Net of Reinsurance and Salvage and Subrogation Recoverable

	As of March 31, 2012			As of December 31, 2011		
	Loss and LAE Reserve	Salvage and Subrogation Recoverable	Net	Loss and LAE Reserve	Salvage and Subrogation Recoverable	Net
	(in millions)					
U.S. RMBS:						
First lien:						
Prime first lien	$ 1.6	$	$ 1.6	$ 1.2	$	$ 1.2
Alt-A first lien	59.9	57.1	2.8	69.8	55.4	14.4
Option ARM	139.0	147.6	(8.6)	141.7	140.3	1.4

Subprime	59.7	0.2	59.5	51.4	0.3	51.1
Total first lien	260.2	204.9	55.3	264.1	196.0	68.1
Second lien:						
Closed-end second lien	9.3	139.8	(130.5)	11.2	136.2	(125.0)
HELOC	54.8	186.5	(131.7)	61.1	177.2	(116.1)
Total second lien	64.1	326.3	(262.2)	72.3	313.4	(241.1)
Total U.S. RMBS	324.3	531.2	(206.9)	336.4	509.4	(173.0)
Other structured finance	176.2	9.8	166.4	233.0	5.9	227.1
Public finance (1)	362.3	75.6	286.7	100.0	69.9	30.1
Total financial guaranty	862.8	616.6	246.2	669.4	585.2	84.2
Other	1.9		1.9	1.9		1.9
Subtotal	864.7	616.6	248.1	671.3	585.2	86.1
Effect of consolidating FG VIEs	(63.1)	(292.2)	229.1	(61.6)	(258.1)	196.5
Total (2)	$ 801.6	$ 324.4	$ 477.2	$ 609.7	$ 327.1	$ 282.6

(1) Includes $275.5 million of net loss reserves as of March 31, 2012 and $32.6 million of net loss reserves as of December 31, 2011 related to sovereign debt of Greece.

(2) See Components of Net Reserves (Salvage) table for loss and LAE reserve and salvage and subrogation recoverable components.

The following table reconciles the loss and LAE reserve and salvage and subrogation components on the consolidated balance sheet to the financial guaranty net reserves (salvage) in the financial guaranty BIG transaction loss summary tables above.

Components of Net Reserves (Salvage)

	As of March 31, 2012	As of December 31, 2011
	(in millions)	
Loss and LAE reserve	$ 954.5	$ 679.0
Reinsurance recoverable on unpaid losses	(152.9)	(69.3)
Subtotal	801.6	609.7
Salvage and subrogation recoverable	(367.3)	(367.7)
Salvage and subrogation payable(1)	42.9	40.6
Subtotal	(324.4)	(327.1)
Total	477.2	282.6
Less: other	1.9	1.9
Financial guaranty net reserves (salvage)	$ 475.3	$ 280.7

(1) Recorded as a component of reinsurance balances payable.

The following table presents the loss and LAE recorded in the consolidated statements of operations by sector for financial guaranty insurance contracts. Amounts presented are net of reinsurance and net of the benefit for recoveries from breaches of R&W.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

Loss and LAE Reported

on the Consolidated Statements of Operations

	First Quarter	
	2012	2011
	(in millions)	
Financial Guaranty:		
U.S. RMBS:		
First lien:		
Prime first lien	$ 0.4	$ (0.1)
Alt-A first lien	(1.3)	8.2
Option ARM	52.5	(29.1)
Subprime	7.8	(9.4)
Total first lien	59.4	(30.4)
Second lien:		
Closed end second lien	(0.8)	(9.9)
HELOC	15.1	61.0
Total second lien	14.3	51.1
Total U.S. RMBS	73.7	20.7
Other structured finance	(32.4)	20.3
Public finance(1)	208.7	(15.8)
Total	250.0	25.2
Effect of consolidating FG VIEs	(3.2)	(50.7)
Total loss and LAE	$ 246.8	$ (25.5)

(1) Includes $189.3 million related to sovereign debt of Greece for First Quarter 2012.

The following table provides information on financial guaranty insurance and reinsurance contracts categorized as BIG.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

Financial Guaranty Insurance BIG Transaction Loss Summary

March 31, 2012

	BIG Categories								
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded	Total BIG, Net	Effect of Consolidating FG VIEs	Total
	(dollars in millions)								
Number of risks(1)	164	(58)	79	(27)	125	(48)	368		368
Remaining weighted-average contract period (in years)	10.3	9.1	13.3	25.5	9.3	6.5	10.6		10.6
Net outstanding exposure:									
Principal	$ 9,048.8	$ (1,345.6)	$ 4,192.3	$ (289.5)	$ 7,512.5	$ (599.2)	$ 18,519.3	$	$ 18,519.3
Interest	4,143.5	(464.5)	3,206.1	(515.4)	2,401.3	(163.8)	8,607.2		8,607.2
Total(2)	$ 13,192.3	$ (1,810.1)	$ 7,398.4	$ (804.9)	$ 9,913.8	$ (763.0)	$ 27,126.5	$	$ 27,126.5
Expected cash outflows (inflows)	$ 1,567.6	$ (646.0)	$ 2,203.4	$ (233.3)	$ 2,691.8	$ (123.6)	$ 5,459.9	$ (818.2)	$ 4,641.7
Potential recoveries(3)	(1,688.0)	669.8	(1,049.2)	50.0	(2,423.4)	94.0	(4,346.8)	905.6	(3,441.2)
Subtotal	(120.4)	23.8	1,154.2	(183.3)	268.4	(29.6)	1,113.1	87.4	1,200.5
Discount	9.9	(4.8)	(279.1)	23.1	(110.5)	0.7	(360.7)	68.1	(292.6)
Present value of expected cash flows	$ (110.5)	$ 19.0	$ 875.1	$ (160.2)	$ 157.9	$ (28.9)	$ 752.4	$ 155.5	$ 907.9
Deferred premium revenue	$ 112.3	$ (13.6)	$ 311.5	$ (32.0)	$ 899.0	$ (107.5)	$ 1,169.7	$ (343.8)	$ 825.9
Reserves (salvage)(4)	$ (136.6)	$ 24.1	$ 637.0	$ (141.7)	$ (145.5)	$ 8.9	$ 246.2	$ 229.1	$ 475.3

Financial Guaranty Insurance BIG Transaction Loss Summary

December 31, 2011

	BIG Categories								
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded	Total BIG, Net	Effect of Consolidating FG VIEs	Total
	(dollars in millions)								
Number of risks(1)	171	(68)	71	(26)	126	(48)	368		368
Remaining weighted-average contract period (in years)	10.0	9.2	13.7	20.5	9.2	6.4	10.4		10.4
Net outstanding exposure:									
Principal	$ 9,675.8	$ (1,378.0)	$ 3,731.6	$ (274.0)	$ 7,830.8	$ (627.7)	$ 18,958.5	$	$ 18,958.5
Interest	4,307.9	(485.6)	2,889.4	(404.8)	2,486.4	(170.0)	8,623.3		8,623.3
Total(2)	$ 13,983.7	$ (1,863.6)	$ 6,621.0	$ (678.8)	$ 10,317.2	$ (797.7)	$ 27,581.8	$	$ 27,581.8
Expected cash outflows (inflows)	$ 1,730.6	$ (658.8)	$ 1,833.3	$ (120.3)	$ 2,423.0	$ (133.4)	$ 5,074.4	$ (998.4)	$ 4,076.0
Potential recoveries(3)	(1,798.0)	664.0	(1,079.3)	38.5	(2,040.5)	100.3	(4,115.0)	1,059.8	(3,055.2)
Subtotal	(67.4)	5.2	754.0	(81.8)	382.5	(33.1)	959.4	61.4	1,020.8
Discount	15.7	(4.6)	(240.6)	31.6	(125.1)	1.6	(321.4)	45.3	(276.1)
Present value of expected cash flows	$ (51.7)	$ 0.6	$ 513.4	$ (50.2)	$ 257.4	$ (31.5)	$ 638.0	$ 106.7	$ 744.7
Deferred premium revenue	$ 260.8	$ (69.1)	$ 280.9	$ (12.3)	$ 991.8	$ (126.6)	$ 1,325.5	$ (390.7)	$ 934.8
Reserves (salvage)(4)	$ (96.6)	$ 6.9	$ 319.5	$ (41.9)	$ (110.2)	$ 6.5	$ 84.2	$ 196.5	$ 280.7

(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments. The ceded number of risks represents the number of risks for which the Company ceded a portion of its exposure.

(2) Includes BIG amounts related to FG VIEs which are not eliminated.

(3) Includes estimated future recoveries for breaches of R&W as well as excess spread, and draws on HELOCs.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

4. Financial Guaranty Insurance Contracts (Continued)

(4) See table Components of net reserves (salvage).

Ratings Impact on Financial Guaranty Business

A downgrade of one of the Company s insurance subsidiaries may result in increased claims under financial guaranties issued by the Company, if the insured obligors were unable to pay.

For example, AGM and AGC have issued financial guaranty insurance policies in respect of the obligations of municipal obligors under interest rate swaps. Under the swaps, AGM or AGC, as the case may be, insures periodic payments owed by the municipal obligors to the bank counterparties. Under certain of the swaps, AGM or AGC also insures termination payments that may be owed by the municipal obligors to the bank counterparties. The bank counterparty benefiting from AGM or AGC s insurance policy may have the right to terminate the swap if AGM or AGC s financial strength rating declines below a certain level. The particular level varies on a transaction by transaction basis; a significant amount of swap exposure would be terminable by the bank counterparty if AGM or AGC were downgraded below A by S&P or below A2 by Moody s. The amount that AGM or AGC may be obligated to pay upon termination could be limited both in the aggregate and on an annual basis by the terms of the swap. In many cases, the bank counterparty is not entitled to terminate the swap if the municipal obligor either replaces AGM or AGC, or posts collateral under the swap. If AGM or AGC has been downgraded below the rating trigger set forth in a swap under which it has insured the termination payment; the municipal obligor has failed to post collateral or replace AGM or AGC, as the case may be, or to otherwise cure the downgrade of AGM or AGC; the bank counterparty has elected to terminate the swap; a termination payment is payable by the municipal obligor; and the municipal obligor has failed to make the termination payment payable by it, in an amount that equals or exceeds the limit set forth in the financial guaranty relating to such swap, then AGM and AGC would be required to pay the termination payments due by the municipal obligor. The claim payment would be subject to recovery from such municipal obligor.

As another example, with respect to VRDOs for which a bank has agreed to provide a liquidity facility, a downgrade of AGM or AGC may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a bank bond rate that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% 3.00%, and capped at the lesser of 25% and the maximum legal limit). In the event the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to AGM or AGC under its financial guaranty policy. As of March 31, 2012, AGM and AGC has insured approximately $1.1 billion of par of VRDOs issued by

municipal obligors rated BBB- or lower pursuant to the Company s internal rating. For a number of such obligations, a downgrade of AGM or AGC below A+ by S&P or below A1 by Moody s triggers the ability of the bank to notify bondholders of the termination of the liquidity facility and to demand accelerated repayment of bond principal over a period of five to ten years. The specific terms relating to the rating levels that trigger the bank s termination right, and whether it is triggered by a downgrade by one rating agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction.

See also Note 13, Long Term Debt and Credit Facilities for a discussion of the impact of a downgrade in the financial strength rating on the Company s insured leveraged lease transactions and Note 12, Commitments and Contingencies for a discussion of the impact of a downgrade in the financial strength rating on guaranteed investment contracts (GICs) that AGM has insured.

5. Fair Value Measurement

The Company carries the majority of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on a hypothetical market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party s proprietary pricing models. In addition to market

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company s credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company s creditworthiness, constraints on liquidity and unobservable parameters. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company continues to refine its methodologies. During First Quarter 2012, no changes were made to the Company s valuation models that had or are expected to have, a material impact on the Company s consolidated balance sheets or statements of operations and comprehensive income.

The Company s methods for calculating fair value produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels as follows, with Level 1 being the highest and Level 3 the lowest. An asset or liability s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. All three levels require the use of observable market data when available.

Level 1 Quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Transfers between Levels 1, 2 and 3 are recognized at the beginning of the period when the transfer occurs. The Company reviews the classification between Levels 1, 2 and 3 quarterly to determine, based on the definitions provided, whether a transfer is necessary. During the periods presented, there were no transfers between Level 1 and Level 2 and no transfers in or out of Level 3.

Measured and Carried at Fair Value

Fixed Maturity Securities and Short-term Investments

The fair value of bonds in the investment portfolio is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additional valuation factors that can be taken into account are nominal spreads and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news. The market inputs used in the pricing evaluation, listed in the approximate order of priority include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. Additionally, the valuation of fixed maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur. The overwhelming majority of fixed maturities are classified as Level 2.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Short-term investments, which comprise securities due to mature within one year of the date of purchase that are traded in active markets, are classified within Level 1 in the fair value hierarchy and are based on quoted market prices. Securities such as discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value.

Prices determined based upon model processes where at least one significant model assumption or input is unobservable, are considered to be Level 3 in the fair value hierarchy. At March 31, 2012, the Company used model processes to price 26 fixed maturity securities, which was 4% or $403.3 million of the Company s fixed-income securities and short-term investments at fair value. Level 3 securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party s proprietary pricing models, which includes information from Intex Solutions Inc. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); house price depreciation/appreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the bond including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

Other Invested Assets

Other invested assets includes certain investments that are carried and measured at fair value on a recurring basis and non-recurring basis, as well as assets not carried at fair value. Within other invested assets, $60.7 million are measured and carried at fair value on a recurring basis as of March 31, 2012. These assets primarily comprise certain short-term investments and fixed maturity securities classified as trading and are Level 2 in the fair value hierarchy. Also carried at fair value on a recurring basis are $1.6 million in notes classified as Level 3 in the fair value hierarchy. The fair value of these notes is determined by calculating the present value of the expected cash flows. The unobservable inputs used in the fair value measurement of the notes are discount rate, prepayment speed and default rate.

Within other invested assets, $7.8 million are measured and carried at fair value on a non-recurring basis as of March 31, 2012. These assets are comprised of mortgage loans which are classified as Level 3 in the fair value hierarchy as there are significant unobservable inputs used in the valuation of such loans. The non-performing portion of these mortgage loans is valued using an average recovery rate. The performing loans are

valued using management s determination of future cash flows arising from these loans, discounted at the rate of return that would be required by a market participant. The unobservable inputs used in the fair value measurement of the mortgage loans are discount rate, recovery on delinquent loans, loss severity, prepayment speed and default rate.

Other Assets

Committed Capital Securities

The fair value of committed capital securities (CCS), which is recorded in other assets on the consolidated balance sheets, represents the difference between the present value of remaining expected put option premium payments under AGC s CCS (the AGC CCS Securities) and AGM s Committed Preferred Trust Securities (the AGM CPS Securities) agreements, and the estimated present value that the Company would hypothetically have to pay currently for a comparable security (see Note 13, Long Term Debt and Credit Facilities). The estimated current cost of the Company s CCS depends on several factors, including broker-dealer quotes for the outstanding securities, the U.S. dollar forward swap curve, LIBOR curve projections and the term the securities are estimated to remain outstanding.

Changes in fair value of the AGM CPS and AGC CCS securities were recorded in the consolidated statements of operations. As of March 31, 2012 these securities were classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the broker-dealer quote and the Company s estimate of the term the securities will be outstanding. Prior to the third quarter 2011, the significant market inputs used were observable, therefore, the Company classified this fair value measurement as Level 2. The CCS were transferred to Level 3 on the fair value hierarchy in the third quarter of 2011 because the Company was no longer able to obtain the same level of pricing information as in past quarters.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Supplemental Executive Retirement Plans

The Company classifies the fair value measurement of the assets of the Company s various supplemental executive retirement plans as Level 1. The fair value of these assets is valued based on the observable published daily values of the underlying mutual fund and company stock investments included in the aforementioned plans.

Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company s credit derivatives consist primarily of insured CDS contracts, and also include net interest margin securitizations and interest rate swaps that fall under derivative accounting standards requiring fair value accounting through the statement of operations. The Company does not enter into CDS with the intent to trade these contracts and the Company may not unilaterally terminate a CDS contract; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions.

The terms of the Company s CDS contracts differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts. The non-standard terms include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points and does not exit derivatives it sells or purchases for credit protection purposes, except under specific circumstances such as mutual agreements with counterparties to terminate certain CDS contracts.

Due to the lack of quoted prices for its instruments or for similar instruments, the Company determines the fair value of its credit derivative contracts primarily through modeling that uses various inputs to derive an estimate of the fair value of the Company s contracts in principal markets. Observable inputs other than quoted market prices exist; however, these inputs reflect contracts that do not contain terms and conditions similar to the credit derivative contracts issued by the Company. Management does not believe there is an established market where financial guaranty insured credit derivatives are actively traded. The terms of the protection under an insured financial guaranty credit derivative do not, except for certain rare circumstances, allow the Company to exit its contracts. Management has determined that the exit market for the Company s credit derivatives is a hypothetical one based on its entry market. Management has tracked the historical pricing of the Company s

deals to establish historical price points in the hypothetical market that are used in the fair value calculation. These contracts are classified as Level 3 in the fair value hierarchy since there is reliance on at least one unobservable input deemed significant to the valuation model, most significantly the Company s estimate of the value of the non-standard terms and conditions of its credit derivative contracts and of the Company s current credit standing.

The Company s models and the related assumptions are continuously reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely and relevant market information.

The fair value of the Company s credit derivative contracts represents the difference between the present value of remaining net premiums the Company expects to receive or pay for the credit protection under the contract and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay the Company for the same protection. The fair value of the Company s credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Company s own credit risk and remaining contractual cash flows. The expected remaining contractual cash flows are the most readily observable inputs since they are based on the CDS contractual terms. These cash flows include premiums to be received or paid under the terms of the contract. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. If credit spreads of the underlying obligations change, the fair value of the related credit derivative changes. Market liquidity also affects valuations of the underlying obligations. Market conditions at March 31, 2012 were such that market prices of the Company s CDS contracts were not available. Since market prices were not available, the Company used proprietary valuation models that used both unobservable and observable market data inputs as described under Assumptions and Inputs below. These models are primarily developed internally based on market conventions for similar transactions.

Valuation models include management estimates and current market information. Management is also required to make assumptions of how the fair value of credit derivative instruments is affected by current market conditions. Management considers factors such as current prices charged for similar agreements, when available, performance of underlying assets, life of the instrument, and the nature and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that management uses to determine the fair value may change in the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models to determine the fair value of these credit derivative products, actual experience may differ from the estimates reflected in the Company s consolidated financial statements and the differences may be material.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Assumptions and Inputs

Listed below are various inputs and assumptions that are key to the establishment of the Company s fair value for CDS contracts.

- How gross spread is calculated: Gross spread is the difference between the yield of a security paid by an issuer on an insured versus uninsured basis or, in the case of a CDS transaction, the difference between the yield and an index such as the LIBOR. Such pricing is well established by historical financial guaranty fees relative to the credit spread on risks assumed as observed and executed in competitive markets, including in financial guaranty reinsurance and secondary market transactions.

- How gross spread is allocated: Gross spread on a financial guaranty contract accounted for as CDS is allocated among:

1. the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction (bank profit);

2. premiums paid to the Company for the Company s credit protection provided (net spread); and

3. the cost of CDS protection purchased by the originator to hedge their counterparty credit risk exposure to the Company (hedge cost).

- The weighted average life which is based on expected remaining contractual cash flows and debt service schedules, which are readily observable inputs since they are based on the CDS contractual terms.

- The rates used to discount future expected losses.

The expected future premium cash flows for the Company s credit derivatives were discounted at rates ranging from 0.24% to 3.02% at March 31, 2012. The expected future cash flows for the Company s credit derivatives were discounted at rates ranging from 0.30% to 2.70% at December 31, 2011.

Gross spread is used to ultimately determine the net spread a comparable financial guarantor would charge the Company to transfer its risk at the reporting date.The Company obtains gross spreads on risks assumed from market data sources published by third parties (e.g. dealer spread tables for the collateral similar to assets within the Company s transactions) as well as collateral-specific spreads provided by trustees or obtained from market sources. If observable market credit spreads are not available or reliable for the underlying reference obligations, then market indices are used that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. These indices are adjusted to reflect the non-standard terms of the Company s CDS contracts. Market sources determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. Management validates these quotes by cross-referencing quotes received from one market source against quotes received from another market source to ensure reasonableness. In addition, the Company compares the relative change in price quotes received from one quarter to another, with the relative change experienced by published market indices for a specific asset class. Collateral specific spreads obtained from third-party, independent market sources are un-published spread quotes from market participants or market traders who are not trustees. Management obtains this information as the result of direct communication with these sources as part of the valuation process.

With respect to CDS transactions for which there is an expected claim payment within the next twelve months, the allocation of gross spreads reflects a higher allocation to the cost of credit rather than the bank profit component. In the current market, it is assumed that a bank would be willing to accept a lower profit on distressed transactions in order to remove these transactions from its financial statements.

The following spread hierarchy is utilized in determining which source of gross spread to use, with the rule being to use CDS spreads where available. If not available, the Company either interpolates or extrapolates CDS spreads based on similar transactions or market indices.

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

- Deals priced or closed during a specific quarter within a specific asset class and specific rating.
- Credit spreads interpolated based upon market indices.
- Credit spreads provided by the counterparty of the CDS.
- Credit spreads extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.

Information by Credit Spread Type

	As of March 31, 2012	As of December 31, 2011
Based on actual collateral specific spreads	5%	5%
Based on market indices	90%	90%
Provided by the CDS counterparty	5%	5%
Total	100%	100%

Over time the data inputs can change as new sources become available or existing sources are discontinued or are no longer considered to be the most appropriate. It is the Company s objective to move to higher levels on the hierarchy whenever possible, but it is sometimes necessary to move to lower priority inputs because of discontinued data sources or management s assessment that the higher priority inputs are no longer considered to be representative of market spreads for a given type of collateral. This can happen, for example, if transaction volume changes such that a previously used spread index is no longer viewed as being reflective of current market levels.

The Company interpolates a curve based on the historical relationship between the premium the Company receives when a financial guaranty contract accounted for as CDS is closed, to the daily closing price of the market index related to the specific asset class and rating of the deal. This curve indicates expected credit spreads at each indicative level on the related market index. For transactions with unique terms or characteristics where no price quotes are available, management extrapolates credit spreads based on an alternative transaction for which the Company has received a spread quote from one of the first three sources within the Company s spread hierarchy. This alternative transaction will be within the same asset class, have similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates the percentage of relative spread change quarter over quarter for the alternative transaction. This percentage change is then applied to the historical credit spread of the transaction for which no price quote was received in order to calculate the transactions current spread. Counterparties determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. These quotes are validated by cross-referencing quotes received from one market source with those quotes received from another market source to ensure reasonableness.

The premium the Company receives is referred to as the net spread. The Company s pricing model takes into account not only how credit spreads on risks that it assumes affect pricing, but also how the Company s own credit spread affects the pricing of its deals. The Company s own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market prices on CDS referencing AGC or AGM. For credit spreads on the Company s name the Company obtains the quoted price of CDS contracts traded on AGC and AGM from market data sources published by third parties. The cost to acquire CDS protection referencing AGC or AGM affects the amount of spread on CDS deals that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGC or AGM increases, the amount of premium the Company retains on a deal generally decreases. As the cost to acquire CDS protection referencing AGC or AGM decreases, the amount of premium the Company retains on a deal generally increases. In the Company s valuation model, the premium the Company captures is not permitted to go below the minimum rate that the Company would currently charge to assume similar risks. This assumption can have the effect of mitigating the amount of unrealized gains that are recognized on certain CDS contracts. Given the current market conditions and the Company s own credit spreads, approximately 76% of our CDS contracts are fair valued using this minimum premium. The Company corroborates the assumptions in its fair value model, including the portion of exposure to AGC and AGM hedged by its counterparties, with independent third parties each reporting period. The current level of AGC s and AGM s own credit spread has resulted in the bank or deal originator hedging a significant portion of its exposure to AGC and AGM. This reduces the amount of contractual cash flows AGC and AGM can capture as premium for selling its protection.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

The amount of premium a financial guaranty insurance market participant can demand is inversely related to the cost of credit protection on the insurance company as measured by market credit spreads assuming all other assumptions remain constant. This is because the buyers of credit protection typically hedge a portion of their risk to the financial guarantor, due to the fact that the Company s contracts contractual terms typically do not require the posting of collateral by the guarantor. The widening of a financial guarantor s own credit spread increases the cost to buy credit protection on the guarantor, thereby reducing the amount of premium the guarantor can capture out of the gross spread on the deal. The extent of the hedge depends on the types of instruments insured and the current market conditions.

A credit derivative asset on protection sold is the result of contractual cash flows on in-force deals in excess of what a hypothetical financial guarantor could receive if it sold protection on the same risk as of the current reporting date. If the Company were able to freely exchange these contracts (i.e., assuming its contracts did not contain proscriptions on transfer and there was a viable exchange market), it would be able to realize a gain representing the difference between the higher contractual premiums to which it is entitled and the current market premiums for a similar contract. The Company determines the fair value of its CDS contracts by applying the difference between the current net spread and the contractual net spread for the remaining duration of each contract to the notional value of its CDS contracts.

Example

Following is an example of how changes in gross spreads, the Company s own credit spread and the cost to buy protection on the Company affect the amount of premium the Company can demand for its credit protection. The assumptions used in these examples are hypothetical amounts. Scenario 1 represents the market conditions in effect on the transaction date and Scenario 2 represents market conditions at a subsequent reporting date.

	Scenario 1		Scenario 2	
	bps	% of Total	bps	% of Total
Original gross spread/cash bond price (in bps)	185		500	
Bank profit (in bps)	115	62%	50	10%
Hedge cost (in bps)	30	16	440	88
The Company premium received per annum (in bps)	40	22	10	2

In Scenario 1, the gross spread is 185 basis points. The bank or deal originator captures 115 basis points of the original gross spread and hedges 10% of its exposure to AGC, when the CDS spread on AGC was 300 basis points (300 basis points × 10% = 30 basis points). Under this scenario the Company received premium of 40 basis points, or 22% of the gross spread.

In Scenario 2, the gross spread is 500 basis points. The bank or deal originator captures 50 basis points of the original gross spread and hedges 25% of its exposure to AGC, when the CDS spread on AGC was 1,760 basis points (1,760 basis points × 25% = 440 basis points). Under this scenario the Company would receive premium of 10 basis points, or 2% of the gross spread. Due to the increased cost to hedge AGC s name, the amount of profit the bank would expect to receive, and the premium the Company would expect to receive decline significantly.

In this example, the contractual cash flows (the Company premium received per annum above) exceed the amount a market participant would require the Company to pay in today s market to accept its obligations under the CDS contract, thus resulting in an asset. This credit derivative asset is equal to the difference in premium rates discounted at the corresponding LIBOR over the weighted average remaining life of the contract.

Strengths and Weaknesses of Model

The Company s credit derivative valuation model, like any financial model, has certain strengths and weaknesses.

The primary strengths of the Company s CDS modeling techniques are:

- The model takes into account the transaction structure and the key drivers of market value. The transaction structure includes par insured, weighted average life, level of subordination and composition of collateral.

- The model maximizes the use of market-driven inputs whenever they are available. The key inputs to the model are market-based spreads for the collateral, and the credit rating of referenced entities. These are viewed by the Company to be the key parameters that affect fair value of the transaction.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

- The model is a consistent approach to valuing positions. The Company has developed a hierarchy for market-based spread inputs that helps mitigate the degree of subjectivity during periods of high illiquidity.

The primary weaknesses of the Company s CDS modeling techniques are:

- There is no exit market or actual exit transactions. Therefore the Company s exit market is a hypothetical one based on the Company s entry market.

- There is a very limited market in which to validate the reasonableness of the fair values developed by the Company s model.

- At March 31, 2012 and December 31, 2011, the markets for the inputs to the model were highly illiquid, which impacts their reliability.

- Due to the non-standard terms under which the Company enters into derivative contracts, the fair value of its credit derivatives may not reflect the same prices observed in an actively traded market of credit derivatives that do not contain terms and conditions similar to those observed in the financial guaranty market.

As of March 31, 2012 these contracts were classified as Level 3 in the fair value hierarchy because there is a reliance on at least one unobservable input deemed significant to the valuation model, most significantly the Company s estimate of the value of non-standard terms and conditions of its credit derivative contracts and of the Company s current credit standing.

Fair Value Option on FG VIEs Assets and Liabilities

The Company elected the fair value option for the FG VIEs assets and liabilities upon adoption of VIE consolidation accounting guidance on January 1, 2010. The fair value option was also elected for all subsequently consolidated FG VIEs. See Note 7, Consolidation of Variable Interest Entities.

The FG VIEs that are consolidated by the Company issued securities collateralized by HELOCs, first lien RMBS, Alt-A first and second lien RMBS, subprime automobile loans, and other loans and receivables. As the lowest level input that is significant to the fair value measurement of these securities in its entirety was a Level 3 input (i.e. unobservable), management classified all such securities as Level 3 in the fair value hierarchy. The securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach and the third-party s proprietary pricing models. The models to price the FG VIEs liabilities used, where appropriate, inputs such as estimated prepayment speeds; market values of the assets that collateralize the securities; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); discount rates implied by market prices for similar securities; house price depreciation/appreciation rates based on macroeconomic forecasts and, for those liabilities insured by the Company, the benefit from the Company s insurance policy guaranteeing the timely payment of principal and interest for the FG VIE tranches insured by the Company, taking into account the timing of the potential default and the Company s own credit rating. These inputs are utilized to project the future cash flows of the security and to evaluate the overall bond profile. The third-party also utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithm s designed to aggregate market color, received by the third-party, on comparable bonds.

Changes in fair value of the FG VIEs assets and liabilities are included in fair value gains (losses) on FG VIEs within the consolidated statement of operations. Except for credit impairment that triggers a claim on the financial guaranty contract, the unrealized fair value adjustments related to the consolidated FG VIEs will reverse to zero over the terms of these financial instruments.

The fair value of the Company s FG VIE assets is sensitive to changes relating to estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to some of these inputs could materially change the market value of the FG VIE s assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIE is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically leads to a decrease in the fair value of the

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Company s FG VIE assets, while a decrease in collateral losses typically leads to an increase in the fair value of the Company s FG VIE assets. These factors also directly impact the fair value of the Company s uninsured VIE liabilities.

The fair value of the Company s insured FG VIE liabilities is also sensitive to changes relating to estimated prepayment speeds; market values of the assets that collateralize the securities; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. In addition, the Company s insured FG VIE liabilities are also sensitive to changes in the Company s implied credit worthiness. Significant changes to any of these inputs could materially change the timing of expected losses within the insured transaction which is a significant factor in determining the implied benefit from the Company s insurance policy guaranteeing the timely payment of principal and interest for the FG VIE tranches insured by the Company. In general, when the timing of expected loss payments by the Company is extended into the future, this typically leads to a decrease in the value of the Company s insurance and a decrease in the fair value of the Company s insured FG VIE liabilities, while a shortening of the timing of expected loss payments by the Company typically leads to an increase in the value of the Company s insurance and an increase in the fair value of the Company s insured FG VIE liabilities.

Not Carried at Fair Value

Financial Guaranty Contracts in Insurance Form

The fair value of the Company s financial guaranty contracts accounted for as insurance was based on management s estimate of what a similarly rated financial guaranty insurance company would demand to acquire the Company s in-force book of financial guaranty insurance business. This amount was based on the pricing assumptions management has observed for portfolio transfers that have occurred in the financial guaranty market and included adjustments to the carrying value of unearned premium reserve for stressed losses, ceding commissions and return on capital. The significant inputs were not readily observable. The Company accordingly classified this fair value measurement as Level 3.

Long-Term Debt

The Company s long-term debt, excluding notes payable, is valued by broker-dealers using third party independent pricing sources and standard market conventions. The market conventions utilize market quotations, market transactions for the Company s comparable instruments, and to a lesser extent, similar instruments in the broader insurance industry. The fair value measurement was classified as Level 2 in the fair value hierarchy.

The fair value of the notes payable that are recorded within long-term debt was determined by calculating the present value of the expected cash flows. The Company uses a market approach to determine discounted future cash flows using market driven discount rates and a variety of assumptions, including LIBOR curve projections, prepayment and default assumptions, and AGM CDS spreads. The fair value measurement was classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the discount rates, prepayment and default assumptions, loss severity and recovery on delinquent loans.

Other Invested Assets

Assets Acquired in Refinancing Transactions

The fair value of the other invested assets was determined by calculating the present value of the expected cash flows. The Company uses a market approach to determine discounted future cash flows using market driven discount rates and a variety of assumptions, including LIBOR curve projections, prepayment and default assumptions, and AGM CDS spreads. The fair value measurement was classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the discount rates, prepayment and default assumptions, loss severity and recovery on delinquent loans.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Financial Instruments Carried at Fair Value

Amounts recorded at fair value in the Company s financial statements are included in the tables below.

Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of March 31, 2012

	Fair Value	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
		(in millions)		
Assets:				
Investment portfolio, available-for-sale:				
Fixed maturity securities				
U.S. government and agencies	$ 866.7	$	$ 866.7	$
Obligations of state and political subdivisions	5,526.1		5,516.6	9.5
Corporate securities	1,042.8		1,042.8	
Mortgage-backed securities:				
RMBS	1,424.0		1,288.3	135.7
CMBS	501.5		501.5	
Asset-backed securities	482.9		224.8	258.1
Foreign government securities	360.9		360.9	
Total fixed maturity securities	10,204.9		9,801.6	403.3
Short-term investments	903.4	220.3	683.1	
Other invested assets(1)	68.5	0.1	59.0	9.4
Credit derivative assets	463.6			463.6
FG VIEs assets, at fair value	2,827.7			2,827.7
Other assets(2)	67.9	28.0		39.9
Total assets carried at fair value	$ 14,536.0	$ 248.4	$ 10,543.7	$ 3,743.9
Liabilities:				
Credit derivative liabilities	$ 2,416.3	$	$	$ 2,416.3

FG VIEs	liabilities with recourse, at fair value	2,365.2			2,365.2
FG VIEs	liabilities without recourse, at fair value	1,085.6			1,085.6
Total liabilities carried at fair value		$ 5,867.1	$	$	$ 5,867.1

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of December 31, 2011

	Fair Value	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
		(in millions)		
Assets:				
Investment portfolio, available-for-sale:				
Fixed maturity securities				
U.S. government and agencies	$ 922.4	$	$ 922.4	$
Obligations of state and political subdivisions	5,455.4		5,445.9	9.5
Corporate securities	1,038.4		1,038.4	
Mortgage-backed securities:				
RMBS	1,427.9		1,294.3	133.6
CMBS	500.0		500.0	
Asset-backed securities	458.1		222.6	235.5
Foreign government securities	339.7		339.7	
Total fixed maturity securities	10,141.9		9,763.3	378.6
Short-term investments	734.0	210.3	523.7	
Other invested assets(1)	43.5		32.8	10.7
Credit derivative assets	468.9			468.9
FG VIEs assets, at fair value	2,819.1			2,819.1
Other assets(2)	79.5	25.7		53.8
Total assets carried at fair value	$ 14,286.9	$ 236.0	$ 10,319.8	$ 3,731.1
Liabilities:				
Credit derivative liabilities	$ 1,772.8	$	$	$ 1,772.8
FG VIEs liabilities with recourse, at fair value	2,396.9			2,396.9
FG VIEs liabilities without recourse, at fair value	1,061.5			1,061.5
Total liabilities carried at fair value	$ 5,231.2	$	$	$ 5,231.2

(1) Includes mortgage loans that are recorded at fair value on a non-recurring basis. At March 31, 2012 and December 31, 2011, such investments were carried at their market value of $7.8 million and $9.0 million, respectively.

(2) Includes fair value of CCS and supplemental executive retirement plan assets.

Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of the Company s Level 3 financial instruments carried at fair value on a recurring basis during First Quarter 2012 and 2011.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Fair Value Level 3 Rollforward

Recurring Basis

Fair value as of December 31, 2011	$ 9.5	$ 133.6	$ 235.5	$ 1.7	$ 2,819.1	$ 53.8	$ (1,303.9)	$ (2,396.9)	$ (1,061.5)
Total pretax realized and unrealized gains/(losses) recorded in:(1)									
Net income (loss)	0.2(2)	0.8(2)	5.8(2)		135.1(3)	(13.9)(4)	(690.6)(6)	(118.0)(3)	(79.8)(3)
Other comprehensive income (loss)	0.4	9.9	0.1	(0.1)					
Purchases			18.0						
Settlements	(0.6)	(8.6)	(1.3)		(141.0)		41.8	170.3	55.7
FG VIE consolidations					14.5			(20.6)	
Fair value as of March 31, 2012	$ 9.5	$ 135.7	$ 258.1	$ 1.6	$ 2,827.7	$ 39.9	$ (1,952.7)	$ (2,365.2)	$ (1,085.6)
Change in unrealized gains/(losses) related to financial instruments held as of March 31, 2012	$ 0.4	$ 9.9	$ 0.1	$ (0.1)	$ 231.4	$ (13.9)	$ (634.6)	$ (107.0)	$ (118.1)

	Three Months Ended March 31, 2011						
	Fixed Maturity Securities					FG VIEs	FG VIEs
	RMBS	Asset-Backed Securities	Other Invested Assets	FG VIEs Assets at Fair Value	Credit Derivative Asset (Liability), net(5)	Liabilities with Recourse, at Fair Value	Liabilities without Recourse, at Fair Value
	(in millions)						
Fair value as of December 31, 2010	$ 99.4	$ 210.2	$ 2.3	$ 3,657.5	$ (1,869.9)	$ (3,030.9)	$ (1,337.2)
Total pretax realized and unrealized gains/(losses) recorded in:(1)							
Net income (loss)	3.9(2)	1.6(2)		234.4(3)	(236.2)(6)	(11.1)(3)	(135.5)(3)
Other comprehensive income (loss)	(30.8)	20.3	(0.1)				
Purchases	150.6						
Sales	(4.1)						
Settlements	(8.9)			(212.9)	(33.9)	167.8	99.7
Fair value as of March 31, 2011	$ 210.1	$ 232.1	$ 2.2	$ 3,679.0	$ (2,140.0)	$ (2,874.2)	$ (1,373.0)
Change in unrealized gains/(losses) related to financial instruments held as of March 31, 2011	$ (30.2)	$ 20.3	$ (0.1)	$ 348.3	$ (282.8)	$ (35.9)	$ (172.0)

(1) Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains (losses) from changes in values of those financial instruments only for the periods in which the instruments were classified as Level 3.

(2) Included in net realized investment gains (losses) and net investment income.

(3) Included in fair value gains (losses) on FG VIEs.

(4) Recorded in fair value gain (loss) on committed capital securities.

(5) Represents net position of credit derivatives. The consolidated balance sheet presents gross assets and liabilities based on net counterparty exposure.

(6) Reported in net change in fair value of credit derivatives.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs

Financial Instrument Description	Fair Value at March 31, 2012 (in millions)	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Assets:				
Fixed maturity securities:				
Obligations of state and political subdivisions	$ 9.5	Discounted cash flow	Rate of inflation	1.0% - 3.0%
			Timing of collateral sales	3 years - 11 years
			Assumed sale proceeds	0.0% - 11.9%
			Collateral recovery period	3 years - 11 years
RMBS	135.7	Discounted cash flow	CPR	0.0% - 7.5%
			CDR	3.5% - 41.5%
			Severity	48.5% - 104.5%
			Yield	6.0% - 16.0%
Asset-backed securities:				
Whole business securitization	44.3	Discounted cash flow	Annual gross revenue projections	$54 million - $96 million
			Value of primary financial guaranty policy	

			Liquidity discount	43.8% 5.0% - 20.0%
Investor owned utility	185.3	Discounted cash flow	Liquidation value	
			Years to liquidation	$161.8 million - $261.0 million 0 years - 2 years
			Discount factor	0.9% - 1.1%
XXX life insurance transactions	28.1	Discounted cash flow	Yield	14.5%
			Discount on asset cash flows	40.0%
Other asset-backed	0.4	Discounted cash flow	CPR	0.0% - 10.0%
			CDR	2.0% - 10.0%
			Severity	40.0% - 100.0%
			Yield	3.0% - 15.0%
Other invested assets	9.4	Discounted cash flow	Discount for lack of liquidity Recovery on delinquent loans	10% - 20%
			Default rates	20% - 60%
			Loss severity	1% - 10%
			Prepayment speeds	40% - 90%
				6% - 15%
FG VIEs assets, at fair value	2,827.7	Discounted cash flow	CPR	0.0% - 10.9%
			CDR	1.8% - 39.1%
			Severity	25.5% - 110.1%
			Yield	4.4% - 22.4%

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

Financial Instrument Description	Fair Value at March 31, 2012 (in millions)	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Other assets	39.9	Discounted cash flow	Quotes from third party pricing	
			Term	$40 - $45 3 years
Liabilities:				
Credit derivative liabilities, net	(1,952.7)	Discounted cash flow	Year 1 loss estimates	0% - 100%
			Hedge cost (in bps)	94.5bps - 743bps
			Bank profit (in bps)	1.0bps -1,271.5bps
			Internal floor (in bps)	7.0bps - 40.0bps
			Internal credit rating	AAA - CCC
FG VIEs liabilities, at fair value	(3,450.8)	Discounted cash flow	CPR CDR Severity Yield	0.0% - 10.9% 1.8% - 39.1% 25.5% - 110.1% 4.4% - 22.4%

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

5. Fair Value Measurement (Continued)

The carrying amount and estimated fair value of the Company s financial instruments are presented in the following table.

Fair Value of Financial Instruments

	As of March 31, 2012		As of December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Assets:				
Fixed maturity securities	$ 10,204.9	$ 10,204.9	$ 10,141.9	$ 10,141.9
Short-term investments	903.4	903.4	734.0	734.0
Other invested assets	154.1	157.7	170.4	182.4
Credit derivative assets	463.6	463.6	468.9	468.9
FG VIEs assets, at fair value	2,827.7	2,827.7	2,819.1	2,819.1
Other assets	169.0	169.0	180.2	180.2
Liabilities:				
Financial guaranty insurance contracts(1)	4,827.6	6,102.3	4,664.0	4,319.8
Long-term debt(2)	1,034.7	1,265.6	1,038.3	1,186.3
Credit derivative liabilities	2,416.3	2,416.3	1,772.8	1,772.8
FG VIEs liabilities with recourse, at fair value	2,365.2	2,365.2	2,396.9	2,396.9
FG VIEs liabilities without recourse, at fair value	1,085.6	1,085.6	1,061.5	1,061.5
Other liabilities	18.3	18.3	7.6	7.6

(1) Carrying amount includes the balance sheet amounts related to financial guaranty insurance contract premiums and losses, net of reinsurance.

(2) Carrying amount represented principal less accumulated discount or plus accumulated premium.

6. Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company has a portfolio of financial guaranty contracts that meet the definition of a derivative in accordance with GAAP (primarily CDS). Until the Company ceased selling credit protection through credit derivative contracts in the beginning of 2009, following the issuance of regulatory guidelines that limited the terms under which the credit protection could be sold, management considered these agreements to be a normal part of its financial guaranty business. The potential capital or margin requirements that may apply under the Dodd-Frank Wall Street Reform and Consumer Protection Act contributed to the decision of the Company not to sell new credit protection through CDS in the foreseeable future.

Credit derivative transactions are governed by ISDA documentation and have different characteristics from financial guaranty insurance contracts. For example, the Company s control rights with respect to a reference obligation under a credit derivative may be more limited than when the Company issues a financial guaranty insurance contract. In addition, while the Company s exposure under credit derivatives, like the Company s exposure under financial guaranty insurance contracts, has been generally for as long as the reference obligation remains outstanding, unlike financial guaranty contracts, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events. A loss payment is made only upon the occurrence of one or more defined credit events with respect to the referenced securities or loans. A credit event may be a non-payment event such as a failure to pay, bankruptcy or restructuring, as negotiated by the parties to the credit derivative transactions. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. The Company may be required to make a termination payment to its swap counterparty upon such termination. The Company may not unilaterally terminate a CDS contract; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions.

Credit Derivative Net Par Outstanding by Sector

The estimated remaining weighted average life of credit derivatives was 4.0 years at March 31, 2012 and 4.3 years at December 31, 2011. In First Quarter 2012, CDS contracts totaling $0.2 billion in net par were terminated. The components of the Company s credit derivative net par outstanding are presented below.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

6. Financial Guaranty Contracts Accounted for as Credit Derivatives (Continued)

Credit Derivatives Net Par Outstanding

	As of March 31, 2012				As of December 31, 2011			
Asset Type	**Net Par Outstanding**	**Original Subordination (1)**	**Current Subordination (1)**	**Weighted Average Credit Rating**	**Net Par Outstanding**	**Original Subordination (1)**	**Current Subordination (1)**	**Weighted Average Credit Rating**
	(dollars in millions)							
Pooled corporate obligations:								
Collateralized loan obligation/collateral bond obligations	$ 34,272	33.0%	32.2%	AAA	$ 34,567	32.6%	32.0%	AAA
Synthetic investment grade pooled corporate	11,521	20.8	19.0	AAA	12,393	20.4	18.7	AAA
Synthetic high yield pooled corporate	5,077	35.7	29.8	AA+	5,049	35.7	30.3	AA+
TruPS CDOs	4,475	46.5	31.6	BB	4,518	46.6	31.9	BB
Market value CDOs of corporate obligations	4,122	34.9	30.1	AAA	4,546	30.6	28.9	AAA
Total pooled corporate obligations	59,467	32.0	29.3	AAA	61,073	31.2	28.9	AAA
U.S. RMBS:								
Option ARM and Alt-A first lien	3,953	19.2	12.8	BB	4,060	19.6	13.6	BB-
Subprime first lien (including net interest margin)	3,925	29.4	53.6	A+	4,012	30.1	53.9	A+
Prime first lien	382	10.9	7.9	B	398	10.9	8.4	B
Closed end second lien and HELOCs	59			B	62			B
Total U.S. RMBS	8,319	23.5	31.8	BBB	8,532	24.1	32.2	BBB
CMBS	4,410	33.5	40.3	AAA	4,612	32.6	38.9	AAA
Other	10,806			A	10,830			A
Total	$ 83,002			AA+	$ 85,047			AA+

(1) Represents the sum of subordinate tranches and over-collateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

Except for TruPS CDOs, the Company s exposure to pooled corporate obligations is highly diversified in terms of obligors and industries. Most pooled corporate transactions are structured to limit exposure to any given obligor and industry. The majority of the Company s pooled corporate exposure consists of collateralized loan obligation (CLO) or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% of the total transaction and typically restrict the maximum exposure to any one industry to approximately 10%. The Company s exposure also benefits from embedded credit enhancement in the transactions which allows a transaction to sustain a certain level of losses in the underlying collateral, further insulating the Company from industry specific concentrations of credit risk on these deals.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

6. Financial Guaranty Contracts Accounted for as Credit Derivatives (Continued)

The Company s TruPS CDO asset pools are generally less diversified by obligors and industries than the typical CLO asset pool. Also, the underlying collateral in TruPS CDOs consists primarily of subordinated debt instruments such as TruPS issued by bank holding companies and similar instruments issued by insurance companies, REITs and other real estate related issuers while CLOs typically contain primarily senior secured obligations. However, to mitigate these risks TruPS CDOs were typically structured with higher levels of embedded credit enhancement than typical CLOs.

The Company s exposure to Other CDS contracts is also highly diversified. It includes $3.2 billion of exposure to three pooled infrastructure transactions comprising diversified pools of international infrastructure project transactions and loans to regulated utilities. These pools were all structured with underlying credit enhancement sufficient for the Company to attach at super senior AAA levels at origination. The remaining $7.6 billion of exposure in Other CDS contracts comprises numerous deals typically structured with significant underlying credit enhancement and spread across various asset classes, such as commercial receivables, international RMBS, infrastructure, regulated utilities and consumer receivables.

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

	As of March 31, 2012		As of December 31, 2011	
Ratings	**Net Par Outstanding**	**% of Total**	**Net Par Outstanding**	**% of Total**
	(dollars in millions)			
Super Senior	$ 20,787	25.0%	$ 21,802	25.6%
AAA	40,099	48.3	40,240	47.3
AA	3,617	4.4	4,084	4.8
A	5,906	7.1	5,830	6.9
BBB	5,114	6.2	5,030	5.9
BIG	7,479	9.0	8,061	9.5
Total credit derivative net par outstanding	$ 83,002	100.0%	$ 85,047	100.0%

Credit Derivative

U.S. Residential Mortgage-Backed Securities

Vintage	Net Par Outstanding (in millions)	As of March 31, 2012 Original Subordination(1)	Current Subordination(1)	Weighted Average Credit Rating	First Quarter 2012 Unrealized Gain (Loss) (in millions)
2004 and Prior	$ 140	6.4%	19.4%	BBB+	$ (1.5)
2005	2,444	30.6	65.3	AA	(5.7)
2006	1,621	29.4	35.5	A-	(33.4)
2007	4,114	17.5	10.8	BB-	(588.8)
Total	$ 8,319	23.5%	31.8%	BBB	$ (629.4)

(1) Represents the sum of subordinate tranches and overcollateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

Credit Derivative

Commercial Mortgage-Backed Securities

Vintage	Net Par Outstanding (in millions)	As of March 31, 2012 Original Subordination(1)	Current Subordination(1)	Weighted Average Credit Rating	First Quarter 2012 Unrealized Gain (Loss) (in millions)
2004 and Prior	$ 144	28.2%	59.2%	AAA	$ (0.1)
2005	672	17.9	33.9	AAA	(0.1)
2006	2,104	33.9	39.8	AAA	0.5
2007	1,490	40.5	42.2	AAA	(0.1)
Total	$ 4,410	33.5%	40.3%	AAA	$ 0.2

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

March 31, 2012

6. Financial Guaranty Contracts Accounted for as Credit Derivatives (Continued)

(1) Represents the sum of subordinate tranches and over-collateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

Net Change in Fair Value of Credit Derivatives

Net Change in Fair Value of Credit Derivatives Gain (Loss)

	First Quarter	
	2012	2011
	(in millions)	
Net credit derivative premiums received and receivable	$ 28.9	$ 59.6
Net ceding commissions (paid and payable) received and receivable	(0.1)	1.4
Realized gains on credit derivatives	28.8	61.0
Net credit derivative losses (paid and payable) recovered and recoverable	(85.7)	(25.6)
Total realized gains (losses) and other settlements on credit derivatives	(56.9)	35.4
Net unrealized gains (losses) on credit derivatives	(633.8)	(271.6)
Net change in fair value of credit derivatives	$ (690.7)	$ (236.2)

Net credit derivative premiums received and receivable included $0.2 million in First Quarter 2012, which represents the acceleration of future premium revenues for terminated CDS. In First Quarter 2011, CDS contracts totaling $2.6 billion in net par were terminated for total net payments to the Company of $15.5 million. The increase in paid losses was due primarily to claims paid on an insured film securitization.

Changes in the fair value of credit derivatives occur primarily because of changes in interest rates, credit spreads, credit ratings of the referenced entities, realized gains (losses) and other settlements, and the issuing company s own credit rating, credit spreads and other market factors. Except for estimated credit impairments (i.e., net expected payments), the unrealized gains and losses on credit derivatives are expected to reduce to zero as the exposure approaches its maturity date. With considerable volatility continuing in the market, unrealized gains (losses) on credit derivatives may fluctuate significantly in future periods.

Net Change in Unrealized Gains (Losses) on Credit Derivatives By Sector

Asset Type	First Quarter 2012	First Quarter 2011
	(in millions)	
Pooled corporate obligations:		
CLOs/Collateral bond obligations	$ 7.3	$ 2.0
Synthetic investment grade pooled corporate	1.6	10.5
Synthetic high yield pooled corporate	10.8	(2.8)
TruPS CDOs	(13.8)	(20.8)
Market value CDOs of corporate obligations	(0.4)	(0.1)
Total pooled corporate obligations	5.5	(11.2)
U.S. RMBS:		
Option ARM and Alt-A first lien	(517.7)	(267.6)
Subprime first lien (including net interest margin)	(26.1)	(24.1)
Prime first lien	(86.1)	0.6
Closed end second lien and HELOCs	0.5	0.3
Total U.S. RMBS	(629.4)	(290.8)
CMBS	0.2	0.7
Other	(10.1)	29.7
Total	$ (633.8)	$ (271.6)

In First Quarter 2012, U.S. RMBS unrealized fair value losses were generated primarily in the Option ARM, Alt-A, prime first lien and subprime RMBS sectors due to wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC s name as the market cost of AGC s credit protection decreased. These transactions were pricing above their floor levels (or the minimum rate at which the Company would consider

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6. Financial Guaranty Contracts Accounted for as Credit Derivatives (Continued)

assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC, which management refers to as the CDS spread on AGC, decreased the implied spreads that the Company would expect to receive on these transactions increased. The cost of AGM s credit protection also decreased during the quarter, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels.

In First Quarter 2011, U.S. RMBS unrealized fair value losses were generated primarily in the Option ARM, Alt-A first lien, and Subprime RMBS sectors due to wider implied net spreads. The wider implied net spreads were a result of price deterioration as well as the decreased cost to buy protection in AGC s name as the market cost of AGC s credit protection declined. These transactions were pricing above their floor levels; therefore when the cost of purchasing CDS protection on AGC declined, which management refers to as the CDS spread on AGC, the implied spreads that the Company would expect to receive on these transactions increased. The cost of AGM s credit protection remained relatively flat during the quarter. The unrealized fair value gain within the Other asset class resulted from price improvement on a XXX life-securitization policy within the quarter.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and other market conditions at the time these fair values are determined. In addition, since each transaction has unique collateral and structural terms, the underlying change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts also reflects the change in the Company s own credit cost based on the price to purchase credit protection on AGC and AGM. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date. Generally, a widening of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized losses that result from widening general market credit spreads, while a narrowing of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized gains that result from narrowing general market credit spreads.

Five-Year CDS Spread on AGC and AGM

	As of March 31, 2012	As of December 31, 2011
Quoted price of CDS contract (in basis points):		
AGC	743	1,140
AGM	555	778

Components of Credit Derivative Assets (Liabilities)

	As of March 31, 2012	As of December 31, 2011
	(in millions)	
Credit derivative assets	$ 463.6	$ 468.9
Credit derivative liabilities	(2,416.3)	(1,772.8)
Net fair value of credit derivatives	$ (1,952.7)	$ (1,303.9)

	As of March 31, 2012	As of December 31, 2011
	(in millions)	
Fair value of credit derivatives before effect of AGC and AGM credit spreads	$ (4,897.7)	$ (5,595.8)
Less: Effect of AGC and AGM credit spreads	(2,945.0)	(4,291.9)
Net fair value of credit derivatives	$ (1,952.7)	$ (1,303.9)

The fair value of CDS contracts at First Quarter 2012 before considering the implications of AGC s and AGM s credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets, and ratings downgrades. The asset classes that remain most affected are recent vintages of subprime RMBS and Alt-A first lien deals, as well as trust-preferred securities. When looking at March 31, 2012 compared with December 31, 2011, there was tightening of spreads primarily relating to the Company s Alt-A first lien and subprime RMBS transactions, as well as the Company s trust-preferred securities. This tightening of spreads resulted in a gain of approximately $698.1 million, before taking into account AGC s or AGM s credit spreads.

Management believes that the trading level of AGC s and AGM s credit spreads are due to the correlation between AGC s and AGM s risk profile and the current risk profile of the broader financial markets and to increased demand for credit protection against AGC and AGM as the result of its financial guaranty volume, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC s and AGM s credit spread were higher credit spreads in the

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6. Financial Guaranty Contracts Accounted for as Credit Derivatives (Continued)

fixed income security markets. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high yield CDO, Trust- Preferred CDO, and CLO markets as well as continuing market concerns over the most recent vintages of subprime RMBS.

The following table presents the fair value and the present value of expected claim payments or recoveries for contracts accounted for as derivatives.

Net Fair Value and Expected Losses of Credit Derivatives by Sector

	Fair Value of Credit Derivative Asset (Liability), net		Present Value of Expected Claim (Payments) Recoveries(1)	
	As of	As of	As of	As of
Asset Type	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(in millions)			
Pooled corporate obligations:				
CLOs/ Collateralized bond obligations	$ 6.6	$ (0.7)	$	$
Synthetic investment grade pooled corporate	(22.6)	(23.8)		
Synthetic high-yield pooled corporate	(4.9)	(15.7)	(0.6)	(5.2)
TruPS CDOs	(25.8)	(11.9)	(38.1)	(39.3)
Market value CDOs of corporate obligations	2.3	2.5		
Total pooled corporate obligations	(44.4)	(49.6)	(38.7)	(44.5)
U.S. RMBS:				
Option ARM and Alt-A first lien(2)	(1,137.2)	(596.4)	(159.4)	(191.2)
Subprime first lien (including net interest margin)	(31.6)	(22.5)	(94.6)	(94.9)
Prime first lien	(130.4)	(44.3)		
Closed-end second lien and HELOCs	(14.4)	(14.9)	12.8	6.6
Total U.S. RMBS	(1,313.6)	(678.1)	(241.2)	(279.5)
CMBS	(4.6)	(4.9)		
Other	(590.1)	(571.3)	(96.3)	(94.9)
Total	$ (1,952.7)	$ (1,303.9)	$ (376.2)	$ (418.9)

(1) Represents amount in excess of the present value of future installment fees to be received of $54.4 million as of March 31, 2012 and $47.1 million as of December 31, 2011. Includes R&W on credit derivatives of $233.4 million as of March 31, 2012 and $215.0 million as of December 31, 2011.

(2) Includes one transaction which is covered under the Bank of America Agreement.

Ratings Sensitivities of Credit Derivative Contracts

Within the Company s insured CDS portfolio, the transaction documentation for $2.3 billion in CDS par insured provides that if the financial strength rating of AGC were downgraded past a specified level (which level varies from transaction to transaction), would constitute a termination event that would allow the CDS counterparty to terminate the affected transactions. If the CDS counterparty elected to terminate the affected transactions, under some transaction documents the Company could be required to make a termination payment (or may be entitled to receive a termination payment from the CDS counterparty) and under other transaction documents the credit protection would be cancelled and no termination payment would be owing by either party. Under certain documents, the Company has the right to cure the termination event by posting collateral, assigning its rights and obligations in respect of the transactions to a third party, or seeking a third party guaranty of the obligations of the Company. The Company currently has three ISDA master agreements under which the applicable counterparty could elect to terminate transactions upon a rating downgrade of AGC. If AGC s financial strength ratings were downgraded to BBB- or Baa3, $89 million in par insured could be terminated by one counterparty; and if AGC s ratings were downgraded to BB+ or Ba1, an additional approximately $2.2 billion in par insured could be terminated by the other two counterparties. The Company does not believe that it can accurately estimate the termination payments it could be required to make if, as a result of any such downgrade, a CDS counterparty terminated its CDS contracts with the Company. These payments could have a material adverse effect on the Company s liquidity and financial condition.

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6. Financial Guaranty Contracts Accounted for as Credit Derivatives (Continued)

Under a limited number of other CDS contracts, the Company may be required to post eligible collateral to secure its obligation to make payments under such contracts. Eligible collateral is generally cash or U.S. government or agency securities; eligible collateral other than cash is valued at a discount to the face amount. For certain of such contracts, the CDS counterparty has agreed to have some exposure to the Company on an unsecured basis, but as the financial strength ratings of the Company s insurance subsidiaries decline, the amount of unsecured exposure to the Company allowed by the CDS counterparty decreases until, at a specified rating level (which level varies from transaction to transaction), the Company must collateralize all of the exposure. The amount of collateral required is based on a mark-to-market valuation of the exposure that must be secured. Under other contracts, the Company has negotiated caps such that the posting requirement cannot exceed a certain fixed amount, regardless of the financial strength ratings of the Company s insurance subsidiaries. As of March 31, 2012 the amount of insured par that is subject to collateral posting is approximately $14.6 billion (which amount is not reduced by unsecured exposure to the Company allowed by CDS counterparties at current financial strength rating levels), for which the Company has agreed to post approximately $678.2 million of collateral (which amount reflects some of the eligible collateral being valued at a discount to the face amount). The Company may be required to post additional collateral from time to time, depending on its financial strength ratings and on the market values of the transactions subject to the collateral posting. For approximately $14.1 billion of that $14.6 billion, at the Company s current ratings, the Company need not post on a cash basis more than $625 million, regardless of any change in the market value of the transactions, due to caps negotiated with counterparties. For the avoidance of doubt, the $625 million is already included in the $678.2 million that the Company has agreed to post. In the event AGC s ratings are downgraded to A+ or A3, the maximum amount to be posted against the $14.1 billion increases by $50 million to $675 million.

Sensitivity to Changes in Credit Spread

The following table summarizes the estimated change in fair values on the net balance of the Company s credit derivative positions assuming immediate parallel shifts in credit spreads on AGC and AGM and on the risks that they both assume.

Effect of Changes in Credit Spread

	As of March 31, 2012	
Credit Spreads(1)	**Estimated Net Fair Value (Pre-Tax)**	**Estimated Change in Gain/(Loss) (Pre-Tax)**
	(in millions)	

100% widening in spreads	$	(4,060.1)	$	(2,107.4)
50% widening in spreads		(3,009.8)		(1,057.1)
25% widening in spreads		(2,484.6)		(531.9)
10% widening in spreads		(2,169.5)		(216.8)
Base Scenario		(1,952.7)		
10% narrowing in spreads		(1,774.4)		178.3
25% narrowing in spreads		(1,497.0)		455.7
50% narrowing in spreads		(1,037.1)		915.6

(1) Includes the effects of spreads on both the underlying asset classes and the Company s own credit spread.

7. Consolidation of Variable Interest Entities

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. AGC and AGM do not sponsor any VIEs when underwriting third party financial guaranty insurance or credit derivative transactions, nor has either of them acted as the servicer or collateral manager for any VIE obligations that it insures. The transaction structure generally provides certain financial protections to the Company. This financial protection can take several forms, the most common of which are overcollateralization, first loss protection (or subordination) and excess spread. In the case of overcollateralization (i.e., the principal amount of the securitized assets exceeds the principal amount of the structured finance obligations guaranteed by the Company), the structure allows defaults of the securitized assets before a default is experienced on the structured finance obligation guaranteed by the Company. In the case of first loss, the financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by special purpose entities, including VIEs. The first loss exposure with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the financial assets contributed to special purpose entities, including VIEs, generate cash flows that are in excess of the interest payments on the

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7. Consolidation of Variable Interest Entities (Continued)

debt issued by the special purpose entity. Such excess spread is typically distributed through the transaction s cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the special purpose entities, including VIEs (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

AGC and AGM are not primarily liable for the debt obligations issued by the VIEs they insure and would only be required to make payments on these debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due. AGL s and its Subsidiaries creditors do not have any rights with regard to the assets of the VIEs. Proceeds from sales, maturities, prepayments and interest from VIE assets may only be used to pay debt service on VIE liabilities. Net fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the VIE debt, except for claim payments paid by AGC or AGM under the financial guaranty insurance contract. The Company s estimate of expected loss to be paid for FG VIEs is included in Note 4, Financial Guaranty Insurance Contracts.

Consolidated FG VIEs

During First Quarter 2012, two additional VIEs were consolidated. This resulted in a net loss on consolidation of $6.1 million, which was included in fair value gains (losses) on FG VIEs in the consolidated statement of operations. As a result, there were a total of 35 consolidated FG VIEs at March 31, 2012, compared to 33 FG VIEs at December 31, 2011.

The total unpaid principal balance for the FG VIEs assets that were over 90 days or more past due was approximately $1,048.1 million. The difference between the aggregate unpaid principal and aggregate fair value of the FG VIEs assets was approximately $3,121.8 million at March 31, 2012. The change in the instrument-specific credit risk of the FG VIEs assets for the First Quarter ended March 31, 2012 was a gain of approximately $85.9 million. The gain in instrument-specific credit risk was determined by calculating the change in credit impairment for the Company s VIE assets during the period, which are provided by a third party pricing source.

The aggregate unpaid principal balance was approximately $2,498.7 million less than the aggregate fair value of the FG VIEs liabilities as of March 31, 2012.

The trustee reports of the consolidated FG VIEs are prepared by outside parties and are not available within the time constraints that the Company requires to ensure the financial accuracy of the operating results. As such, the financial results of the FG VIEs are consolidated on a lag; however, the Company adjusts the financial statements for the effects of material events occurring from the lag period until the balance sheet date. Interest income and interest expense are derived from the trustee reports and included in fair value gains (losses) on FG VIEs in the consolidated statement of operations. The Company has elected the fair value option for assets and liabilities classified as FG VIEs assets and liabilities. Upon consolidation of FG VIEs, the Company elected the fair value option because the carrying amount transition method was not practical.

The table below shows the carrying value of the consolidated FG VIEs assets and liabilities in the consolidated financial statements, segregated by the types of assets that collateralize their respective debt obligations.

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7. Consolidation of Variable Interest Entities (Continued)

Consolidated FG VIEs

By Type of Collateral

	As of March 31, 2012			As of December 31, 2011		
	Number of FG VIEs	Assets	Liabilities	Number of FG VIEs	Assets	Liabilities
		(dollars in millions)				
With recourse:						
HELOCs	8	$ 572.2	$ 898.7	8	$ 572.9	$ 907.9
First liens:						
Alt-A first lien	3	117.8	104.4	3	118.0	106.1
Option ARM	2	43.0	230.3	2	49.7	244.7
Subprime	7	399.7	499.0	5	386.8	472.7
Closed-end second lien	10	184.3	207.7	10	184.6	219.9
Automobile loans	4	126.9	126.9	4	155.8	155.8
Life insurance	1	298.2	298.2	1	289.8	289.8
Total with recourse	35	1,742.1	2,365.2	33	1,757.6	2,396.9
Without recourse		1,085.6	1,085.6		1,061.5	1,061.5
Total		$ 2,827.7	$ 3,450.8		$ 2,819.1	$ 3,458.4

Gross Par Outstanding for FG VIEs Liabilities

With Recourse

	As of March 31, 2012	As of December 31, 2011
	(in millions)	
Gross par outstanding for FG VIEs liabilities with recourse	$ 3,674.8	$ 3,796.4

Contractual Maturity Schedule of FG VIE Liabilities with Recourse

Contractual Maturity	As of March 31, 2012 (in millions)
2012	$
2013	11.8
2014	114.1
2015	
2016	
Thereafter	3,548.9
Total	$ 3,674.8

The consolidation of FG VIEs has a significant effect on net income and shareholder s equity due to (1) changes in fair value gains (losses) on FG VIE assets and liabilities, (2) the eliminations of premiums and losses related to the AGC and AGM insured FG VIE liabilities and (3) the elimination of investment balances related to the Company s purchase of AGC and AGM insured FG VIE debt. Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. Such eliminations are included in the table below to present the full effect of consolidating FG VIEs.

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March 31, 2012

7. Consolidation of Variable Interest Entities (Continued)

Effect of Consolidating FG VIEs on Net Income and Shareholders Equity(1)

	First Quarter	
	2012	2011
	(in millions)	
Net earned premiums	$ (17.0)	$ (19.1)
Net investment income	(3.2)	(0.3)
Net realized investment gains (losses)	1.4	0.3
Fair value gains (losses) on FG VIEs	(36.6)	119.6
Loss and LAE	3.2	50.7
Total pretax effect on net income	(52.2)	151.2
Less: tax provision (benefit)	(18.3)	53.0
Total effect on net income (loss)	$ (33.9)	$ 98.2

	As of March 31, 2012	As of December 31, 2011
	(in millions)	
Total (decrease) increase on shareholders equity	$ (438.7)	$ (405.2)

(1) Includes the effect of eliminating insurance balances related to the financial guaranty insurance contracts.

Non-Consolidated VIEs

To date, the Company s analyses have indicated that it does not have a controlling financial interest in any other VIEs and, as a result, they are not consolidated in the consolidated financial statements. The Company s exposure provided through its financial guaranties with respect to debt obligations of special purpose entities is included within net par outstanding in Note 3, Outstanding Exposure.

8. Investments

Investment Portfolio

Net investment income is a function of the yield that the Company earns on invested assets and the size of the portfolio. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the invested assets. Net investment income increased slightly due to a shift to longer duration assets, higher income on loss mitigation bonds and additional earnings on higher invested asset balances offset by a reduction in income due to an increase in RMBS prepayment speeds and a decrease in income due to the elimination of income related to consolidated FG VIE s. Accrued investment income on fixed maturity, short-term investments and assets acquired in refinancing transactions was $101.0 million and $100.7 million as of March 31, 2012 and December 31, 2011, respectively.

Net Investment Income

	First Quarter	
	2012	2011
	(in millions)	
Income from fixed maturity securities	$ 98.9	$