Impact of the Dodd-Frank Act Derivative Provisions on Financial Guaranty Insurers

July 30, 2010

ASSURED GUARANTY®
FAMILY OF COMPANIES

Agenda

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II. **Financial Guaranty Insurance**

III. **Assured Guaranty Participation in Derivatives Business**

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V. **Conclusion**

Assured Guaranty Overview

Assured Guaranty Today

	As of March 31, 2010
Net par insured	$639.5 B
Total investment portfolio	$10.5 B
Total assets	$17.4 B
Net unearned premium reserve	$6.8 B
Claims paying resources	$13.4 B

- **We are the leading financial guaranty franchise**
  - We are the only long-standing financial guaranty company still writing new business today
  - We have maintained financial strength ratings acceptable to the market
  - Our core business is the insurance of municipal bonds – municipal bond insurance serves a substantial public purpose in facilitating municipal issuers in accessing the capital markets
- **Our sole focus is financial guaranty insurance**
  - Publicly traded holding company (NYSE: AGO) with extensive quarterly financial disclosures providing transparency to all investors
  - 20+ year track record in financial guaranty insurance market
- **We serve the U.S. capital markets through two platforms:**
  - Assured Guaranty Municipal Corp. ("AGM") (formerly Financial Security Assurance Inc.), acquired in 2009, guarantees public finance and infrastructure transactions
  - Assured Guaranty Corp. ("AGC") guarantees public finance, infrastructure and structured finance transactions
- **We also own the largest and only active financial guaranty reinsurer**
  - Assured Guaranty Re Ltd. ("AG Re") is domiciled in Bermuda

High Financial Strength Ratings

- **We have the highest ratings of any active financial guaranty insurer today:**
  - Moody's confirmed the Aa3 financial strength ratings of AGC and AGM and the A1 financial strength rating of AG Re in fourth quarter 2009
  - Standard & Poor's confirmed AGC's and AGM's AAA rating, and AG Re's AA rating, in second quarter 2010
- **We have been able to maintain our ratings because our underwriting standards did not permit us to guarantee asset-backed securities ("ABS") backed by mezzanine tranches of residential mortgage-backed securities ("RMBS")**

Financial Strength Ratings

As of July 30, 2010

	Moody's (rating/outlook)	S&P (rating/outlook)
AGC	Aa3 / negative	AAA / negative
AGM	Aa3 / negative	AAA / negative
AG Re	A1 / negative	AA / stable

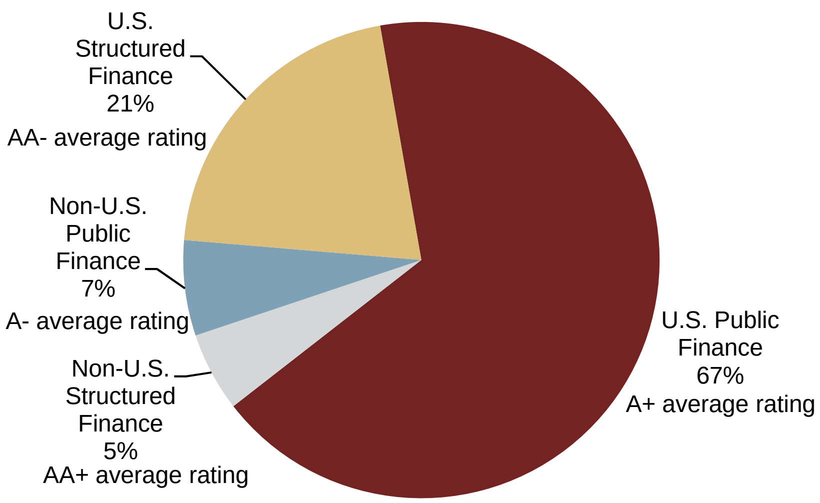
Net Par Outstanding Diversified By Sector

- **Assured Guaranty's portfolio is diversified by asset class**
  - 67% U.S. public finance
  - 21% U.S. structured finance
  - 12% International
- **Our portfolio has an A+ overall credit rating**
- **New business originations are almost exclusively U.S. public finance**
  - Clarity is necessary for investors in municipal bonds insured by Assured Guaranty
- **In 2009, Assured Guaranty's gross par written for U.S. public finance totaled $41.1 billion**
- **Credit default swaps ("CDS") constitute approximately 18% of net par insured**
  - All swaps written pursuant to comprehensive regulatory scheme

Consolidated Net Par Outstanding

As of March 31, 2010

($ in billions)



$639.5 billion, A+ average rating

Financial Guaranty Insurance

Assured Guaranty is Licensed and Regulated

- **AGM is a New York domiciled insurance company regulated by the New York Insurance Department**
  - Licensed to write financial guaranty insurance in the 50 states of the United States, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands
- **AGC is a Maryland domiciled insurance company regulated by the Maryland Insurance Administration**
  - Licensed to write financial guaranty insurance in the 50 states of the United States, the District of Columbia and Puerto Rico
- **Assured Guaranty also has licensed insurance company affiliates in the U.K. and Bermuda**
- **Both AGM and AGC are subject to Article 69 of the New York Insurance Law**
  - Comprehensive regulatory framework for financial guaranty insurers incorporated or licensed in New York – contingency reserves; single and aggregate risk limits; diversified investments
  - Establishes parameters for the terms of insured CDS
  - Recent New York Insurance Department Circular Letter places further restrictions on the insurance of CDS
- **Financial guaranty / surety policies**
  - Guarantee scheduled payments of principal and interest when due
  - Are unconditional and irrevocable
  - Cannot be accelerated

Assured Guaranty Participation in Derivatives Business

Assured Guaranty Derivatives Business

- **CDS are considered an extension of core financial guaranty insurance**
  - Typically cover scheduled payments of principal and interest when due
- **Financial guaranty insurers such as AGC and AGM do not write CDS directly, but rather insure CDS written by affiliated special purpose entities known as "transformers"**
  - Transformers are trusts or corporations with little or no capital, no employees, and no business other than the issuance of CDS insured by their affiliated insurance companies
  - Transformers may be specific to a single CDS or counterparty, or may cover multiple CDS or counterparties
  - The financial guaranty insurer is the "credit support provider" to the transformer
  - The financial guaranty insurer issues an insurance policy guaranteeing the transformer's payment obligations under its CDS
  - Use of transformers is sanctioned by the insurance law as the means for financial guaranty insurers to participate in the CDS business in a circumscribed manner comparable to their core business
- **Financial guaranty insurers are not typical swap participants**
  - Their transformers only *sell* credit protection – do not buy credit protection
  - Their CDS are held until maturity – do not "trade"
  - CDS reference a security or obligor that would otherwise qualify for financial guaranty insurance or, in the case of synthetic CDOs, a pool of securities or obligors generally subject to a "deductible" providing credit protection
  - Payments by transformers are triggered by specified credit events – typically Failure to Pay or Bankruptcy
  - Transactions were highly negotiated and, with few exceptions, specifically excluded collateral posting

Issues Presented by the Dodd-Frank Act

- **Swap definition is broad – legislation should regulate derivatives, not traditional financial guaranty insurance, including municipal bond insurance, or surety bond insurance**
- **Financial guaranty insurers and their transformers should not be considered major swap (or security-based swap) participants or swap (or security-based swap) dealers**
  - Financial guaranty insurers issue insurance policies and are not direct CDS counterparties
  - Transformers have little capital and no business other than the issuance of CDS insured by their affiliated insurers
  - State insurance departments supervise financial guaranty insurers, including their CDS activities – insurers are already subject to:
    - Obligations to establish contingency reserves to protect policyholders against adverse economic cycles
    - Single risk limits applicable to all obligations issued by a single entity and backed by a single revenue source, including CDS guaranteed by the insurer
    - Aggregate risk limits on the basis of aggregate net liability insured as compared with statutory capital
    - Requirements that they diversify their investment portfolio
    - Restrictions on when they can pay dividends
    - Requirements to file financial statements with insurance departments everywhere they are licensed, authorized or accredited to conduct insurance business
  - Regulators conduct periodic examinations of the books and records, financial reporting and market conduct
  - The regulatory authorities of AGC and AGM's industry peers that have suffered adverse developments during the financial crisis have been extensively involved in restructuring the obligations of those entities

Issues Presented by the Dodd-Frank Act (Continued)

- **Capital and margin requirements**
  - If retroactively applied to Assured Guaranty's existing swap portfolio ($115 billion net par outstanding), Assured Guaranty's financial condition and liquidity could be adversely affected
  - Collateral posting would subordinate investors in insured municipal bonds and other insured obligations to CDS counterparties (investment banks; large commercial banks)
  - Such requirements may conflict with existing state insurance law requirements
  - AGC and AGM (and, to our knowledge, other financial guaranty insurers) have not insured a CDS since 2008 (other than in connection with loss mitigation) and do not anticipate being able to do so in the future if capital and margin were required
- **Legal Certainty – the "legal certainty" provisions of Section 739 should be clarified to apply to both "swaps" and "security-based swaps"**
  - Absent clarification, outstanding CDS may be subject to termination for illegality

Conclusion

Conclusion

- **Financial guaranty insurance policies or surety bond policies should not be considered swaps or security-based swaps**
- **Financial guaranty insurers and their transformers should not be considered major swap (or security-based swap) participants or swap (or security-based swap) dealers**
- **Capital and margin requirements should not be applied retroactively to transformers or to financial guaranty insurers**
  - Assured Guaranty’s financial condition and liquidity could be adversely affected
  - Business was structured specifically to provide for no posting of collateral
  - Collateral posting would subordinate the claims of investors in the municipal bonds and other securities insured by Assured Guaranty below those of CDS counterparties
  - Financial guaranty insurers and their swaps business are already highly regulated
  - Do not anticipate being able to write or insure CDS in the future if capital or margin were required
- **Legal certainty provision (Section 739) should be extended to security-based swaps**

Appendix

Corporate Structure

ASSURED GUARANTY®
FAMILY OF COMPANIES

Assured Guaranty Ltd.
Hamilton, Bermuda
Publicly traded Holding Company (NYSE: AGO)
A+ (stable) / A3 (negative outlook)
senior debt ratings

Assured Guaranty Re Ltd. ("AG Re")
Financial Guaranty Reinsurance
AA (stable) / A1 (negative outlook)
financial strength ratings

Assured Guaranty Ireland Holdings Limited
Ireland Holding Company
NR

Assured Guaranty Finance Overseas Ltd.
European Credit Derivative Marketing
NR

Assured Guaranty US Holdings Inc.
U.S. Holding Company
A+ (stable) / A3 (negative outlook)
senior debt ratings

Assured Guaranty Municipal Holdings Inc. (formerly Financial Security Assurance Holdings Ltd.)
U.S. Holding Company
A+ (stable) / A3 (negative outlook)
senior debt ratings

Assured Guaranty Overseas U.S. Holdings Inc.
U.S. Holding Company
NR

Assured Guaranty Re Overseas Ltd. ("AGRO")
Financial Guaranty Reinsurance
AA (stable) / A1 (negative outlook)
financial strength ratings

Assured Guaranty Mortgage Insurance Company
Mortgage Guaranty
AA (stable) / A1 (negative outlook)
financial strength ratings

Assured Guaranty Corp. ("AGC")
Financial Guaranty Direct
AAA (negative outlook) /
Aa3 (negative outlook)
financial strength ratings

AG Financial Products Inc.
Swap Counterparty
NR

Assured Guaranty (UK) Ltd.
Financial Guaranty Direct
AAA (negative outlook) /
Aa3 (negative outlook)
financial strength ratings

Assured Guaranty Municipal Corp. ("AGM") (formerly Financial Security Assurance Inc.)
Financial Guaranty Direct
AAA (negative outlook) / Aa3 (negative outlook)
financial strength ratings

Financial Security Assurance International Ltd.
Bermuda Subsidiary
Financial Guaranty Direct
and Reinsurance
AAA (negative outlook) /
Aa3 (negative outlook)
financial strength ratings

FSA Insurance Company
Financial Guaranty Reinsurance
AAA (negative outlook) / NR
financial strength ratings

Assured Guaranty (Europe) Ltd. (formerly Financial Security Assurance (U.K.) Limited)
Financial Guaranty Direct
AAA (negative outlook) / Aa3 (negative outlook)
financial strength ratings

Ratings and company names as of July 30, 2010.
S&P / Moody's.
NR = Not rated

Financial Information
March 31, 2010

First Quarter 2010 Financial Results

($ in millions, except per share data)

	Quarter Ended March 31, 2010
Net earned premiums	$325.6
Net investment income	84.3
Total revenues	683.9
Loss & LAE and incurred losses on credit derivatives	216.9
Total expenses	247.0
Operating income	89.6
Operating income per diluted share	**$0.47**
Operating ROE	**8.6%**
After-tax gain (loss) on investments / derivatives	$237.5
Net income	322.0
Net income per diluted share	**$1.69**

Claims-Paying Resources

($ in millions)

Consolidated Claims-Paying Resources

	As of March 31, 2010				
	Assured Guaranty Corp.	Assured Guaranty Re Ltd. [1]	Assured Guaranty Municipal Corp.	Eliminations[6]	Consolidated
Claims paying resources					
Policyholders' surplus	$ 1,080	$ 1,021	$ 863	$ (300)	$ 2,664
Contingency reserve	587	-	1,357	-	1,944
Qualified statutory capital	**1,667**	**1,021**	**2,220**	**(300)**	**4,608**
Unearned premium reserve	890	1,052	2,229	-	4,171
Loss and loss adjustment expense reserves	454	256	1,252	-	1,962
Total policyholders' surplus and reserves	**3,011**	**2,329**	**5,701**	**(300)**	**10,741**
Present value of installment premium [2]	584	330	846	-	1,760
Standby line of credit/stop loss	200	200	498	-	898
Total claims paying resources	**$ 3,795**	**$ 2,859**	**$ 7,045**	**$ (300)**	**$ 13,399**
Net par insured outstanding [3]	$ 128,049	$ 146,332	$ 352,809	$ (1,607)	$ 625,583
Net debt service outstanding [3]	$ 183,997	$ 236,390	$ 525,788	$ (3,576)	$ 942,599
Ratios:					
Net par insured to statutory capital	77:1	143:1	159:1		136:1
Capital ratio [4]	110:1	232:1	237:1		205:1
Financial resources ratio [5]	48:1	83:1	75:1		70:1

1. AG Re numbers are the Company's estimate of U.S. statutory as this company files Bermuda statutory financial statements.
2. Includes financial guaranty and credit derivatives.
3. Statutory basis.
4. The capital ratio is calculated by dividing net debt service outstanding by qualified statutory capital.
5. The financial resources ratio is calculated by dividing net debt service outstanding by total claims paying resources.
6. In 2009, Assured Guaranty Corp. issued a $300.0 million note payable to Assured Guaranty Municipal Corp.

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