ASSURED GUARANTY LTD
Form 10-Q
August 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2010

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 ý 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 ý 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 ý	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 ý

The number of registrant's Common Shares ($0.01 par value) outstanding as of July 31, 2010 was 183,743,594 (excludes 192,390 unvested restricted shares).

ASSURED GUARANTY LTD.

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Assured Guaranty Ltd.

Consolidated Balance Sheets (Unaudited)

(dollars in thousands except per share and share amounts)

	June 30, 2010	December 31, 2009
Assets		
Investment portfolio:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost of $8,861,683 and $8,943,909)	$ 9,113,803	$ 9,139,900
Short term investments, at fair value	1,391,183	1,668,279
Total investment portfolio	10,504,986	10,808,179
Assets acquired in refinancing transactions	138,306	152,411
Cash	97,212	44,133
Premiums receivable, net of ceding commissions payable	1,311,254	1,418,232
Ceded unearned premium reserve	929,475	1,080,466
Deferred acquisition costs	250,635	241,961
Reinsurance recoverable on unpaid losses	19,044	14,122
Credit derivative assets	491,122	492,531
Committed capital securities, at fair value	20,855	9,537
Deferred tax asset, net	1,072,260	1,158,205
Salvage and subrogation recoverable	686,039	420,238
Financial guaranty variable interest entities' assets	1,844,673	762,303
Other assets	222,729	200,375
Total assets	**$ 17,588,590**	**$ 16,802,693**
Liabilities and shareholders' equity		
Unearned premium reserves	$ 7,661,289	$ 8,400,152
Loss and loss adjustment expense reserve	403,471	289,470
Long-term debt	921,628	917,362
Notes payable	137,632	149,051
Credit derivative liabilities	1,765,966	2,034,634
Reinsurance balances payable, net	243,039	215,239
Financial guaranty variable interest entities' liabilities with recourse	2,049,253	762,652
Financial guaranty variable interest entities' liabilities without recourse	184,890	
Other liabilities	352,857	513,974
Total liabilities	**13,720,025**	**13,282,534**
Commitments and contingencies		
Common stock ($0.01 par value, 500,000,000 shares authorized;	1,837	1,842

183,743,517 and 184,162,896 shares issued and outstanding in 2010 and 2009)		
Additional paid-in capital	2,581,269	2,584,983
Retained earnings	1,092,129	789,869
Accumulated other comprehensive income, net of deferred tax provision (benefit) of $55,425 and $58,551	191,330	141,814
Deferred equity compensation (181,818 shares)	2,000	2,000
Total shareholders' equity attributable to Assured Guaranty Ltd.	3,868,565	3,520,508
Noncontrolling interest of financial guaranty variable interest entities		(349)
Total shareholders' equity	**3,868,565**	**3,520,159**
Total liabilities and shareholders' equity	**$ 17,588,590**	**$ 16,802,693**

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 June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues				
Net earned premiums	$ 292,110	$ 78,634	$ 611,670	$ 227,080
Net investment income	90,871	43,300	175,173	86,901
Net realized investment gains (losses):				
Other-than-temporary impairment ("OTTI") losses	(17,412)	(36,466)	(18,529)	(54,912)
Less: portion of OTTI loss recognized in other comprehensive income		(21,633)	(661)	(21,633)
Other net realized investment gains (losses)	8,974	9,945	18,843	11,281
Net realized investment gains (losses)	(8,438)	(4,888)	975	(21,998)
Net change in fair value of credit derivatives:				
Realized gains and other settlements	38,353	27,816	65,056	48,395
Net unrealized gains (losses)	35,115	(254,284)	287,213	(227,302)
Net change in fair value of credit derivatives	73,468	(226,468)	352,269	(178,907)
Fair value gain (loss) on committed capital securities	12,593	(60,570)	11,318	(40,904)
Financial guaranty variable interest entities' revenues	(19,133)		(14,945)	
Other income	(13,396)	492	(26,325)	1,394
Total Revenues	**428,075**	**(169,500)**	**1,110,135**	**73,566**
Expenses				
Loss and loss adjustment expenses	71,156	38,030	201,657	117,784
Amortization of deferred acquisition costs	6,936	16,548	15,109	39,969
Assured Guaranty Municipal Holdings Inc. ("AGMH") acquisition-related expenses	2,751	24,225	6,772	28,846
Interest expense	24,831	6,484	49,965	12,305
Financial guaranty variable interest entities' expenses	(19,610)		(4,832)	
Other operating expenses	47,507	26,533	110,040	55,885
Total expenses	**133,571**	**111,820**	**378,711**	**254,789**
Income (loss) before income taxes	**294,504**	**(281,320)**	**731,424**	**(181,223)**
Provision (benefit) for income taxes				
Current	44,822	(9,874)	5,869	1,701
Deferred	46,144	(101,442)	200,042	(98,409)
Total provision (benefit) for income taxes	**90,966**	**(111,316)**	**205,911**	**(96,708)**
Net income (loss)	**203,538**	**(170,004)**	**525,513**	**(84,515)**
Less: Noncontrolling interest of variable interest entities				
Net income (loss) attributable to Assured Guaranty Ltd.	**$ 203,538**	**$ (170,004)**	**$ 525,513**	**$ (84,515)**

Earnings per share:				
Basic	$ 1.10	$ (1.82)	$ 2.85	$ (0.91)
Diluted	$ 1.08	$ (1.82)	$ 2.77	$ (0.91)
Dividends per share	$ 0.045	$ 0.045	$ 0.090	$ 0.090

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 June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	**$ 203,538**	**$ (170,004)**	**$ 525,513**	**$ (84,515)**
Unrealized holding gains (losses) arising during the period on:				
Investments with no OTTI, net of deferred income tax provision (benefit) of $3,785, $10,415, $(1,597) and $14,930	48,183	59,667	58,058	49,965
Investments with OTTI, net of deferred income tax provision (benefit) of $0, $(1,665), $0 and $(1,665)		(19,968)	(661)	(19,968)
Unrealized holding gains (losses) during the period, net of tax	48,183	39,699	57,397	29,997
Less: reclassification adjustment for gains (losses) included in net income (loss), net of deferred income tax provision (benefit) of $(4,206), $2,226, $(1,438) and $2,191	(4,232)	(7,114)	2,413	(24,189)
Change in net unrealized gains on investments	52,415	46,813	54,984	54,186
Change in cumulative translation adjustment	(1,375)	6,384	(5,259)	(2,003)
Change in cash flow hedge	(104)	(104)	(209)	(209)
Other comprehensive income (loss)	50,936	53,093	49,516	51,974
Comprehensive income (loss)	**254,474**	**(116,911)**	**575,029**	**(32,541)**
Less: Comprehensive income (loss) attributable to noncontrolling interest of variable interest entities				
Comprehensive income (loss) of Assured Guaranty Ltd.	**$ 254,474**	**$ (116,911)**	**$ 575,029**	**$ (32,541)**

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 Six Months Ended June 30, 2010

(dollars in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Equity Compensation	Total Shareholders' Equity Attributable to Assured Guaranty Ltd.	Noncontrolling Interest of Financial Guaranty Consolidated Variable Interest Entities	Total Shareholders' Equity
Balance, December 31, 2009	**184,162,896**	**$ 1,842**	**$ 2,584,983**	**$ 789,869**	**$ 141,814**	**$ 2,000**	**$ 3,520,508**	**$ (349)**	**$ 3,520,159**
Cumulative effect of accounting change consolidation of variable interest entities effective January 1, 2010 (Note 8)				(206,540)			(206,540)	349	(206,191)
Balance, January 1, 2010	184,162,896	1,842	2,584,983	583,329	141,814	2,000	3,313,968		3,313,968
Net income				525,513			525,513		525,513
Dividends on common stock ($0.09 per share)				(16,613)			(16,613)		(16,613)
Dividends on restricted stock units			100	(100)					
Common stock repurchases	(707,350)	(7)	(10,450)				(10,457)		(10,457)
Share-based compensation and other	287,971	2	6,636				6,638		6,638
Change in cash flow hedge, net of tax of $(113)					(209)		(209)		(209)
Change in cumulative translation adjustment, net of tax of $(2,854)					(5,259)		(5,259)		(5,259)
Unrealized gain on investments, net of tax of $(159)					54,984		54,984		54,984
Balance, June 30, 2010	**183,743,517**	**$ 1,837**	**$ 2,581,269**	**$ 1,092,129**	**$ 191,330**	**$ 2,000**	**$ 3,868,565**	**$**	**$ 3,868,565**

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)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net cash flows provided by (used in) operating activities	**$ (249,589)**	**$ 202,780**
Investing activities		
Fixed maturity securities:		
Purchases	(1,166,379)	(827,862)
Sales	780,818	705,004
Maturities	488,552	5,500
Net sales (purchases) of short-term investments	276,641	(693,637)
Proceeds from financial guaranty variable interest entities' assets	217,329	
Other	8,317	
Net cash flows provided by (used in) investing activities	**605,278**	**(810,995)**
Financing activities		
Net proceeds from issuance of common stock		448,495
Net proceeds from issuance of equity units		167,972
Dividends paid	(16,613)	(8,199)
Repurchases of common stock	(10,457)	(3,676)
Share activity under option and incentive plans	(2,233)	(778)
Paydown of financial guaranty variable interest entities' liabilities	(259,367)	
Repayment of notes payable	(10,850)	
Net cash flows provided by (used in) financing activities	**(299,520)**	**603,814**
	(3,090)	603

Effect of exchange rate changes				
Increase in cash		53,079		(3,798)
Cash at beginning of period		44,133		12,305
Cash at end of period	**$**	**97,212**	**$**	**8,507**
Supplemental cash flow information				
Cash paid (received) during the period for:				
Income taxes	$	136,645	$	6,836
Interest	$	45,266	$	11,800
Claims paid, net of reinsurance	$	516,834	$	210,818

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

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2010

1. Business and Organization

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 applies its credit underwriting expertise, risk management skills and capital markets experience to develop insurance, reinsurance and credit derivative products. The Company's primary product is a guaranty of principal and interest payments on debt securities. These securities include municipal finance obligations issued by U.S. state or municipal governmental authorities, utility districts or facilities; notes or bonds issued for international infrastructure projects; and asset-backed securities ("ABS") issued by special purpose entities ("SPEs"). 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. and European markets.

On July 1, 2009 (the "Acquisition Date"), the Company acquired Financial Security Assurance Holdings Ltd. (renamed Assured Guaranty Municipal Holdings Inc., "AGMH"), and AGMH's subsidiaries, from Dexia Holdings, Inc. ("Dexia Holdings"). AGMH's principal insurance subsidiary is Financial Security Assurance Inc. (renamed Assured Guaranty Municipal Corp., "AGM"). As discussed further in Note 2, the acquisition of AGMH (the "AGMH Acquisition") did not include the acquisition of AGMH's former financial products business, which was comprised of its guaranteed investment contracts ("GICs") business, its medium term notes ("MTNs") business and the equity payment agreements associated with AGMH's leveraged lease business (the "Financial Products Business").

AGL's principal operating subsidiaries are Assured Guaranty Corp. ("AGC"), AGM and Assured Guaranty Re Ltd. ("AG Re").The Company is a leading provider of financial guaranty credit protection products. This achievement resulted from a combination of factors, including AGL's acquisition of AGMH in 2009, the Company's ability to achieve and maintain high investment-grade financial strength ratings, and the significant financial distress faced by many of the Company's competitors since 2007, which has impaired their ability to underwrite new business.

Since July 1, 2009, when the AGMH Acquisition closed, the Company has conducted its financial guaranty business on a direct basis from two distinct platforms. AGM focuses exclusively on the U.S. public finance and global infrastructure business. AGM ceased underwriting structured finance business in September 2008. The second company, AGC, underwrites global structured finance obligations as well as U.S. public finance and global infrastructure obligations. Neither company currently underwrites U.S. residential mortgage backed securities ("RMBS").

Segments

The Company's business includes two principal segments: financial guaranty direct and financial guaranty reinsurance. Financial guaranties of RMBS and commercial mortgage-backed securities ("CMBS") are included in both the financial guaranty direct and reinsurance segments. The Company's mortgage guaranty insurance business, which used to be a segment and has had no new activity in recent years, and other lines of business that were 100% ceded upon Assured Guaranty's initial public offering ("IPO") in 2004, are shown as "other." Each segment is reported net of business ceded to

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

1. Business and Organization (Continued)

external reinsurers. The financial guaranty segments include contracts accounted for as both insurance and credit derivatives. These segments are further discussed in Note 19.

Importance of Financial Strength Ratings

Debt obligations guaranteed by AGL's insurance company subsidiaries are generally awarded debt credit ratings that are the same rating as the financial strength rating of the AGL subsidiary that has guaranteed that obligation. Investors in products insured by AGC or AGM frequently rely on rating agency ratings because 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, preferably the highest that an agency will assign. However, the models used by rating agencies differ, presenting conflicting goals that sometimes 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.

Historically, insurance financial strength ratings are with respect to an insurer's ability to pay under its insurance policies and contracts in accordance with their terms. The rating is not specific to any particular policy or contract. Insurance financial strength ratings do not refer to an insurer's ability to meet non-insurance obligations and are not a recommendation to purchase any policy or contract issued by an insurer or to buy, hold, or sell any security insured by an insurer. More recently, the ratings also reflect qualitative factors with respect to such things as the insurer's business strategy and franchise value, the anticipated future demand for its product, the composition of its portfolio, and its capital adequacy, profitability and financial flexibility.

The rating agencies have developed and published rating guidelines for rating financial guaranty and mortgage guaranty insurers and reinsurers. The insurance financial strength ratings assigned by the rating agencies are based upon factors relevant to policyholders and are not directed toward the protection of investors in AGL's common shares. The rating criteria used by the rating agencies in establishing these ratings include consideration of the sufficiency of capital resources to meet projected growth (as well as access to such additional capital as may be necessary to continue to meet applicable capital adequacy standards), a company's overall financial strength, and demonstrated management expertise in financial guaranty and traditional reinsurance, credit analysis, systems development, marketing, capital markets and investment operations. Ratings reflect only the views of the respective rating agencies and are subject to continuous review and revision or withdrawal at any time.

There can be no assurance that rating agencies will not take action on the Company's ratings, including downgrading such ratings. The Company's business and its financial condition have been and will continue to be subject to risk of the global financial and economic conditions that could materially and negatively affect the demand for its products, the amount of losses incurred on transactions it guarantees, and its financial strength ratings.

2. AGMH Acquisition

On the Acquisition Date, AGL, through its wholly owned subsidiary Assured Guaranty US Holdings Inc. ("AGUS"), purchased AGMH and, indirectly, its subsidiaries (excluding those involved in

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

2. AGMH Acquisition (Continued)

AGMH's former Financial Products Business) from Dexia Holdings. The acquired companies are collectively referred to as the "Acquired Companies." The AGMH subsidiaries that conducted AGMH's former Financial Products Business (the "Financial Products Companies") were sold to Dexia Holdings prior to the AGMH Acquisition. In connection with the AGMH Acquisition, Dexia Holdings agreed to assume the risks in respect of the Financial Products Business and AGM agreed to retain the risks relating to the debt and strip policy portions of such business. Accordingly, the Company has entered into various agreements with Dexia SA and certain of its affiliates (together, "Dexia") in order to transfer to Dexia the credit risks and, as discussed further in Note 16, the liquidity risks associated with AGMH's former Financial Products Business.

The Company is indemnified against exposure to AGMH's former financial products segment through guaranties issued by Dexia SA and certain of its affiliates. In addition, the Company is protected from exposure to such GIC business through guaranties issued by the French and Belgian governments. Furthermore, to support the payment obligations of the Financial Products Companies, Dexia SA and its affiliate Dexia Crédit Local S.A. ("DCL") have entered into two separate ISDA Master Agreements, each with its associated schedule, confirmation and credit support annex (the "Guaranteed Put Contract" and the "Non-Guaranteed Put Contract" respectively, and collectively, the "Dexia Put Contracts"), pursuant to which Dexia SA and DCL jointly and severally guarantee the scheduled payments of interest and principal in relation to each asset of FSA Asset Management LLC ("FSAM"), which is one of the Financial Products Companies, as well as any failure of Dexia to provide liquidity or liquid collateral under certain liquidity facilities.

AGMH is now a wholly owned subsidiary of AGUS and the Company's financial statements subsequent to the Acquisition Date include the activities of the Acquired Companies.

The purchase price paid by the Company was $546.0 million in cash and 22.3 million common shares of AGL with an Acquisition Date fair value of $275.9 million, for a total purchase price of $821.9 million.

At the closing of the AGMH Acquisition, Dexia Holdings owned approximately 14.0% of AGL's issued common shares. Effective August 13, 2009, Dexia Holdings transferred such AGL common shares to Dexia SA, acting through its French branch. On March 16, 2010, Dexia SA sold all of such AGL common shares in a secondary public offering.

The AGMH Acquisition was accounted for under the purchase method of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, the purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair value at the Acquisition Date. In many cases, determining the fair value of acquired assets and assumed liabilities required the Company to exercise significant judgment. The most significant of these determinations related to the valuation of the acquired financial guaranty direct and ceded contracts.

The fair value of a financial guaranty direct contract is the estimated premium that a similarly rated hypothetical financial guarantor would demand to assume each policy. The methodology for determining such value takes into account the rating of the insured obligation, expectation of loss, sector and term. On January 1, 2009, new accounting guidance became effective for financial guaranty insurance which requires a Company to recognize loss reserves only to the extent expected losses

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

2. AGMH Acquisition (Continued)

exceed deferred premium revenue. As the fair value of the deferred premium revenue exceeded the Company's estimate of expected loss for each contract, no loss reserves were recorded at July 1, 2009 for the Acquired Companies' contracts.

Based on the Company's assumptions, the fair value of the Acquired Companies' deferred premium revenue on its insurance contracts was $7.3 billion at July 1, 2009, an amount approximately $1.7 billion greater than the Acquired Companies' gross unearned premium and loss reserves (i.e. "gross stand ready obligations") at June 30, 2009. This indicates that the amounts of the Acquired Companies' contractual premiums were less than the premiums a market participant of similar credit quality would demand to acquire those contracts at the Acquisition Date. The fair value of the Acquired Companies' ceded contracts at July 1, 2009 was an asset of $1.7 billion and recorded in ceded unearned premium reserve. The fair value of the ceded contracts is in part derived from the fair value of the related insurance contracts with an adjustment for the credit quality of each reinsurer applied.

For AGMH's long-term debt, the fair value was based upon quoted market prices available from third-party brokers as of the Acquisition Date. The fair value of this debt was approximately $0.3 billion lower than its carrying value immediately prior to the AGMH Acquisition. This discount is being amortized into interest expense over the estimated remaining life of the debt.

Additionally, other purchase accounting adjustments included (1) the write off of the Acquired Companies' deferred acquisition cost ("DAC") and (2) the consolidation of certain financial guaranty variable interest entities ("VIEs") in which the combined variable interest of the Acquired Companies and AG Re was determined to be the primary beneficiary. Effective January 1, 2010, the Company deconsolidated these financial guaranty VIEs in accordance with new GAAP guidance as discussed in Note 8.

The bargain purchase gain was recorded within "Goodwill and settlement of pre-existing relationship" in the Company's consolidated statements of operations at the Acquisition Date. The bargain purchase resulted from the unprecedented credit crisis, which resulted in a significant decline in AGMH's franchise value due to material insured losses, ratings downgrades and significant losses at Dexia. Dexia required government intervention in its affairs, resulting in motivation to sell AGMH, and with the absence of potential purchasers of AGMH due to the financial crisis, the Company was able to negotiate a bargain purchase price. The initial difference between the purchase price of $822 million and AGMH's recorded net assets of $2.1 billion was reduced significantly by the recognition of additional liabilities related to AGMH's insured portfolio on a fair value basis as required by purchase accounting.

The Company and the Acquired Companies had a pre-existing reinsurance relationship. Under GAAP, this pre-existing relationship must be effectively settled at fair value. The loss relating to this pre-existing relationship resulted from the effective settlement of reinsurance contracts at fair value and the write-off of previously recorded assets and liabilities relating to this relationship recorded in the Company's historical accounts. The loss related to the contract settlement results from contractual premiums that were less than the Company's estimate of what a market participant would demand currently, estimated in a manner similar to how the value of the Acquired Companies insurance policies were valued, as well as related acquisition costs as described above.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

2. AGMH Acquisition (Continued)

Pro Forma Condensed Combined Statement of Operations

The following unaudited pro forma information presents the combined results of operations of Assured Guaranty and the Acquired Companies. The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2009, nor is it indicative of the results of operations in future periods.

Pro Forma Unaudited Results of Operations

	Second Quarter 2009			Six Months 2009		
	Revenues	Net Income (Loss) Attributable to Assured Guaranty Ltd.	Net Income per Basic Share	Revenues	Net Income (Loss) Attributable to Assured Guaranty Ltd.	Net Income per Basic Share
	(dollars in thousands, except per share amounts)					
Assured Guaranty as reported	$ (169,500)	$ (170,004)	$ (1.82)	$ 73,566	$ (84,515)	$ (0.91)
Pro Forma Combined	382,709	137,053	0.86	1,480,260	606,212	3.81

3. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with GAAP and, in the opinion of management, reflect all adjustments which are of a normal recurring nature, necessary for a fair statement of the Company's financial condition, results of operations and cash flows for the periods presented. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. 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 cover the three-month period ended June 30, 2010 ("Second Quarter 2010") and the three-month period ended June 30, 2009 ("Second Quarter 2009"), the six-month period ended June 30, 2010 ("Six Months 2010") and the six-month period ended June 30, 2009 ("Six Months 2009). Results of operations for the Second Quarter and Six Months ended June 30, 2010 and 2009 are not necessarily indicative of the results that may be expected for a full year. The Second Quarter 2010 and Six Months 2010 financial statements include the effects of the Company's common share and equity units offerings that took place in 2009 and the effects of the AGMH Acquisition, which was effective July 1, 2009. In addition, 2010 financial statements include the effects of consolidating certain financial guaranty VIEs (See Note 8).

Intercompany accounts and transactions have been eliminated. Certain prior year balances have been reclassified to conform to the current year's presentation.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

3. Summary of Significant Accounting Policies (Continued)

These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the U.S. Securities and Exchange Commission (the "SEC").

Certain of AGL's subsidiaries are subject to U.S. and U.K. income tax. The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due to the variability in changes in fair value of its credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pre-tax income for the full year of 2010. A discrete calculation of the provision is calculated for each interim period.

The global financial markets experienced volatility and disruption over the past several years including depressed home prices and increased foreclosures, falling equity market values, rising unemployment, declining business and consumer confidence and the risk of increased inflation, which have precipitated an economic slowdown. While there have been signs of a recovery as seen by stabilizing unemployment and home prices as well as rising equity markets, there can be no assurance that volatility and disruption will not return to these markets in the near term. These conditions may adversely affect the Company's future profitability, financial position, investment portfolio, cash flow, statutory capital, financial strength ratings and stock price. Additionally, future legislative, regulatory or judicial changes in the jurisdictions regulating the Company may adversely affect its ability to pursue its current mix of business, materially impacting its financial results.

4. Outstanding Exposure

The Company's insurance policies and credit derivative contracts which, although written in different forms, collectively are considered financial guaranty contracts and typically guarantee the scheduled payments of principal and interest on public finance and structured finance obligations. The gross amount of in force exposure (principal and interest) was $1,058.0 billion at June 30, 2010 and $1,095.0 billion at December 31, 2009. The net amount of in force exposure (principal and interest), which deducts amounts ceded to third party reinsurers, was $942.6 billion at June 30, 2010 and $958.3 billion at December 31, 2009.

The Company seeks to limit its exposure to losses by underwriting obligations that are investment grade ("IG") at inception, diversifying its portfolio and maintaining rigorous subordination or collateralization requirements on structured finance obligations, as well as through reinsurance.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

4. Outstanding Exposure (Continued)

The par outstanding of insured obligations in the public finance insured portfolio includes the following amounts by type of issue:

Summary of Public Finance Insured Portfolio

Types of Issues	Gross Par Outstanding June 30, 2010	Gross Par Outstanding December 31, 2009	Ceded Par Outstanding June 30, 2010	Ceded Par Outstanding December 31, 2009	Net Par Outstanding June 30, 2010	Net Par Outstanding December 31, 2009
	(in millions)					
U.S.:						
General obligation	$ 199,969	$ 201,264	$ 18,001	$ 22,880	$ 181,968	$ 178,384
Tax backed	94,440	94,825	9,785	11,796	84,655	83,029
Municipal utilities	77,307	77,872	6,320	8,294	70,987	69,578
Transportation	42,862	42,540	6,106	7,243	36,756	35,297
Healthcare	27,351	28,214	5,194	6,205	22,157	22,009
Higher education	15,796	16,399	1,025	1,267	14,771	15,132
Housing	7,470	9,623	808	1,099	6,662	8,524
Infrastructure finance	4,894	4,530	895	977	3,999	3,553
Investor-owned utilities	1,677	1,694	3	4	1,674	1,690
Other public finance U.S.	6,318	6,002	73	120	6,245	5,882
Total public finance U.S.	478,084	482,963	48,210	59,885	429,874	423,078
Non-U.S.:						
Infrastructure finance	17,738	19,404	2,790	3,060	14,948	16,344
Regulated utilities	17,716	18,979	4,771	5,128	12,945	13,851
Pooled infrastructure	4,267	4,684	259	280	4,008	4,404
Other public finance non-U.S.	9,857	10,485	2,185	2,309	7,672	8,176
Total public finance non-U.S.	49,578	53,552	10,005	10,777	39,573	42,775
Total public finance obligations	$ 527,662	$ 536,515	$ 58,215	$ 70,662	$ 469,447	$ 465,853

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

4. Outstanding Exposure (Continued)

The par outstanding of insured obligations in the structured finance insured portfolio includes the following amounts by type of collateral:

Summary of Structured Finance Insured Portfolio

Types of Collateral	Gross Par Outstanding June 30, 2010	Gross Par Outstanding December 31, 2009	Ceded Par Outstanding June 30, 2010	Ceded Par Outstanding December 31, 2009	Net Par Outstanding June 30, 2010	Net Par Outstanding December 31, 2009
			(in millions)			
U.S.:						
Pooled corporate obligations	$ 76,840	$ 82,622	$ 7,997	$ 8,289	$ 68,843	$ 74,333
RMBS and home equity	28,720	31,033	1,708	1,857	27,012	29,176
Financial products(1)	8,394	10,251			8,394	10,251
CMBS	7,347	7,463	53	53	7,294	7,410
Consumer receivables	7,410	9,314	356	441	7,054	8,873
Structured credit	2,602	2,738	126	131	2,476	2,607
Commercial receivables	2,364	2,485	3	3	2,361	2,482
Insurance securitizations	1,731	1,731	80	80	1,651	1,651
Other structured finance U.S.	2,056	2,754	1,186	1,236	870	1,518
Total structured finance U.S.	137,464	150,391	11,509	12,090	125,955	138,301
Non-U.S.:						
Pooled corporate obligations	24,687	27,743	2,770	3,046	21,917	24,697
RMBS and home equity	4,824	5,623	359	396	4,465	5,227
Structured credit	1,951	2,285	142	216	1,809	2,069
Commercial receivables	1,742	1,908	36	36	1,706	1,872
Insurance securitizations	994	995	15	14	979	981
CMBS	674	752			674	752
Other structured finance non-U.S.	644	717	82	47	562	670
Total structured finance non-U.S.	35,516	40,023	3,404	3,755	32,112	36,268
Total structured finance obligations	$ 172,980	$ 190,414	$ 14,913	$ 15,845	$ 158,067	$ 174,569

(1) As discussed in Note 2, this represents the exposure to AGM's financial guaranties of GICs issued by AGMH's former financial products companies. This exposure is guaranteed by Dexia SA and certain of its affiliates. The Company is also protected by guaranties issued by the French and Belgian governments.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

4. Outstanding Exposure (Continued)

The following table sets forth the net financial guaranty par outstanding by rating:

Ratings(1)	June 30, 2010 Net Par Outstanding	June 30, 2010 % of Net Par Outstanding	December 31, 2009 Net Par Outstanding	December 31, 2009 % of Net Par Outstanding
	(dollars in millions)			
Super senior	$ 30,593	4.9%	$ 43,353	6.8%
AAA	70,755	11.3	59,786	9.3
AA	187,846	29.9	196,859	30.7
A	235,446	37.5	233,200	36.4
BBB	77,399	12.3	82,059	12.8
Below investment grade ("BIG") (See Note 5)(2)	25,475	4.1	25,165	4.0
Total exposures	$ 627,514	100.0%	$ 640,422	100.0%

(1) Represents the Company's internal rating. The Company's ratings scale is similar to that used by the nationally recognized rating agencies; however, the ratings in the above table may not be the same as ratings assigned by any nationally recognized rating agency. The super senior category, which is not generally used by rating agencies, is used by the Company in instances where the Company's triple-A-rated exposure on its internal rating scale has additional credit enhancement due to either (1) the existence of another security rated triple-A that is subordinated to the Company's exposure or (2) the Company's exposure benefits from a different form of credit enhancement that would pay any claims first in the event that any of the exposures incur a loss, and such credit enhancement, in management's opinion, causes the Company's attachment point to be materially above the triple-A attachment point.

(2) Includes $747.3 million in gross par as of June 30, 2010 which the Company obtained for risk mitigation purposes.

As part of its financial guaranty business, the Company enters into credit derivative transactions. In such transactions, the buyer of protection pays the seller of protection a periodic fee in fixed basis points on a notional amount. In return, the seller makes a contingent payment to the buyer if one or more defined credit events occurs with respect to one or more third party 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 transaction. The total notional amount of insured credit derivative exposure outstanding which is accounted for at fair value as of June 30, 2010 and December 31, 2009 and included in the Company's financial guaranty exposure in the tables above was $112.2 billion and $119.0 billion, respectively. See Note 7.

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of $6.0 billion for structured finance and $2.2 billion for public finance commitments at June 30, 2010. The structured finance commitments include the unfunded component of and delayed draws on pooled corporate transactions. Public finance commitments are typically short term and relate to primary and secondary public finance debt issuances. The commitments are contingent on the satisfaction of all conditions set forth in the them and may expire unused or be cancelled at the

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

4. Outstanding Exposure (Continued)

counterparty's request. Therefore the total commitment amount does not necessarily reflect actual future guaranteed amounts.

5. Significant Risk Management Activities

Surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio, including exposures in both financial guaranty insurance and credit derivative form. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, and Surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality.

Work-out personnel are responsible for managing work-out and loss situations. They develop strategies designed to enhance the ability of the Company to enforce its contractual rights and remedies and to mitigate its losses, engage in negotiation discussions with transaction participants and, when necessary, manage the Company's litigation proceedings.

In Second Quarter 2010, the Company filed lawsuits against two sponsors of U.S. RMBS transactions insured by the Company, alleging breaches of representations and warranties both in respect of the underlying loans in the transactions and the accuracy of the information provided to the Company, and failure to cure or repurchase defective loans identified by the Company to such sponsors.

The Company segregates its insured portfolio into IG 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 credits include all credits internally rated lower than BBB-. The Company's internal credit ratings are based on the Company's internal assessment of the likelihood of default. The Company's 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 IG credits to determine whether any new credits need to be internally downgraded to BIG. Quarterly procedures include qualitative and quantitative analysis of the Company's insured portfolio to identify potential new BIG credits. The Company refreshes its internal credit ratings on individual credits in 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. Credits identified through this process as BIG are subjected to further review by Surveillance personnel to determine the various probabilities of a loss. Surveillance personnel present analysis related to potential loss scenarios to the reserve committee.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

5. Significant Risk Management Activities (Continued)

Below Investment Grade Surveillance Categories

Within the BIG category, the Company assigns each credit to one of three surveillance categories. Intense monitoring and intervention is employed for all BIG categories, with internal credit ratings reviewed quarterly:

BIG Category 1: Below investment grade transactions showing sufficient deterioration to make material losses possible, but for which no losses have been incurred. Non-investment grade transactions on which liquidity claims have been paid are in this category.

BIG Category 2: Below investment grade transactions for which expected losses have been established but for which no unreimbursed claims have yet been paid.

BIG Category 3: Below investment grade transactions for which expected losses have been established and on which unreimbursed claims have been paid. Transactions remain in this category when claims have been paid and only a recoverable remains.

Financial Guaranty Exposures
(Insurance and Credit Derivative Form)

June 30, 2010

	BIG Net Par Outstanding				
	BIG 1	**BIG 2**	**BIG 3**	**Total BIG**	**Total Net Par Outstanding**
			(in millions)		
First Lien U.S. RMBS:					
Prime First Lien	$ 28	$ 656	$	$ 684	$ 920
Alt-A First Lien	622	4,059	224	4,905	6,517
Alt-A Options ARM	551	2,069	545	3,165	3,579
Subprime (including net interest margin ("NIMs")	28	2,941	98	3,067	9,485
Second Lien U.S. RMBS:					
Closed end second lien ("CES")	114	519	545	1,178	1,218
Home equity lines of credit	636	24	3,626	4,286	5,293

("HELOC")

Total U.S. RMBS	1,979	10,268	5,038	17,285	27,012
Other structured finance	1,229	980	2,246	4,455	131,055
Public finance	2,234	901	600	3,735	469,447
Total	$ 5,442	$ 12,149	$ 7,884	$ 25,475	$ 627,514

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

5. Significant Risk Management Activities (Continued)

December 31, 2009

	BIG Net Par Outstanding				Total Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in millions)		
First Lien U.S. RMBS:					
Prime First Lien	$ 564	$ 51	$	$ 615	$ 985
Alt-A First Lien	752	3,698	173	4,623	7,108
Alt-A Options ARM	629	2,811		3,440	3,882
Subprime (including NIMs)	985	1,648	55	2,688	9,956
Second Lien U.S. RMBS:					
CES	123	628	509	1,260	1,305
HELOCs	13	113	4,372	4,498	5,940
Total U.S. RMBS	3,066	8,949	5,109	17,124	29,176
Other structured finance	1,211	967	2,093	4,271	145,393
Public finance	2,361	723	687	3,771	465,853
Total	$ 6,638	$ 10,639	$ 7,889	$ 25,166	$ 640,422

6. Financial Guaranty Contracts Accounted for as Insurance

Information in this note is only for contracts accounted for as financial guaranty insurance and reinsurance contracts.

**Expected Collections of Gross Premiums Receivable,
Net of Ceding Commissions Payable**

	June 30, 2010(1)
	(in thousands)
2010 (July 1 - September 30)	$ 73,957
2010 (October 1 - December 31)	75,659
2011	135,614

2012		119,603
2013		108,322
2014		96,565
2015 - 2019		398,876
2020 - 2024		288,809
2025 - 2029		210,344
After 2029		251,474
Total expected collections	$	1,759,223

(1) Represents nominal amounts expected to be collected.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The following table provides a reconciliation of the beginning and ending balances of gross premium receivable net of ceding commission payable:

Gross Premium Receivable, Net of Ceding Commissions Payable Roll Forward

	(in thousands)
Premium receivable, net at December 31, 2009	$ 1,418,222
Cumulative effect of change in accounting principle	(19,087)
Premium receivable, net at January 1, 2010	1,399,135
Premium written, net	178,734
Premium payments received, net	(234,271)
Adjustments to the premium receivable:	
Changes in the expected term of financial guaranty insurance contracts	8,160
Accretion of the premium receivable discount	23,689
Foreign exchange rate changes	(65,886)
Other adjustments	1,693
Premium receivable, net at June 30, 2010	$ 1,311,254

The $65.9 million loss due to foreign exchange rate changes relates to installment premium receivable denominated in currencies other than the U.S. dollar. Approximately 40% of the Company's installment premiums at June 30, 2010 are denominated in currencies other than the U.S. dollar, primarily in Euros and British Pound Sterling ("GBP"). Premium receivable is revalued to the spot rate at the end of each reporting period with the change reflected in either (1) other income in the consolidated statements of operations for premium receivable recorded by subsidiaries using the U.S. dollar as its functional currency or (2) other comprehensive income ("OCI") as a cumulative translation adjustment for premium receivables recorded by subsidiaries using a functional currency other than the U.S. dollar.

Selected Information for Policies Paid in Installments

	June 30, 2010 (dollars in thousands)
Premiums receivable, net of ceding commission payable	$ 1,311,254
Deferred premium revenue	3,583,915
Weighted-average risk-free rate used to discount premiums	3.4
Weighted-average period of premiums receivable (in years)	10.3

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The following table presents the components of net premiums earned.

Net Earned Premiums(1)

	Second Quarter 2010	Second Quarter 2009	Six Months 2010	Six Months 2009
	(in thousands)			
Scheduled net earned premiums	$ 267,359	$ 52,156	$ 558,326	$ 104,247
Acceleration of premium earnings(2)	15,446	20,049	30,770	110,336
Accretion of discount on premium receivable	8,667	5,539	21,276	10,897
Total net earned premiums	$ 291,472	$ 77,744	$ 610,372	$ 225,480

(1) Excludes $0.6 million and $0.8 million in net earned premium related to the Other segment for the Second Quarter 2010 and 2009, respectively, and $1.3 million and $1.6 million for the Six Months 2010 and 2009, respectively.

(2) Reflects the unscheduled pre-payment or refundings of underlying insured obligations.

The unearned premium reserve is comprised of deferred premium revenue net of claim payments that are not expected to be recovered and have not yet been recorded through the consolidated statements of operations. Paid losses are expensed when total expected loss (i.e. claim payments plus future expected loss) exceed deferred premium revenue.

	As of June 30, 2010			As of December 31, 2009		
	Gross Unearned Premium Reserve(1)	Ceded Unearned Premium Reserve	Net Unearned Premium Reserve	Gross Unearned Premium Reserve(1)	Ceded Unearned Premium Reserve	Net Unearned Premium Reserve
	(in thousands)					
Deferred premium revenue	$ 7,855,351	$ 954,682	$ 6,900,669	$ 8,536,682	$ 1,095,593	$ 7,441,089
Claim payments	(205,479)	(25,207)	(180,272)	(149,223)	(15,127)	(134,096)
Total	$ 7,649,872	$ 929,475	$ 6,720,397	$ 8,387,459	$ 1,080,466	$ 7,306,993

(1)

Excludes \$11.4 million and \$12.7 million in unearned premium reserve related to the Other segment as of June 30, 2010 and December 31, 2009, respectively.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The following table provides a schedule of how the Company's financial guaranty insurance net deferred premium revenue and PV of expected losses are expected to run off in the consolidated statement of operations, pre-tax. This table excludes amounts related to consolidated VIEs.

Expected Financial Guaranty Scheduled Net Earned Premiums and Net Loss to be Expensed

	As of June 30, 2010		
	Scheduled Net Earned Premium	Expected Loss and LAE(1)	Net
	(in thousands)		
2010 (July 1 - September 30)	$ 254,846	$ 82,264	$ 172,582
2010 (October 1 - December 31)	239,693	74,769	164,924
2011	762,231	186,283	575,948
2012	604,798	115,426	489,372
2013	522,378	92,925	429,453
2014	501,190	88,647	412,543
2015 - 2019	1,678,091	257,632	1,420,459
2020 - 2024	1,025,097	117,252	907,845
2025 - 2029	630,973	65,522	565,451
After 2029	681,372	64,580	616,792
Total present value basis(2)(3)	$ 6,900,669	$ 1,145,300	5,755,369
Discount	411,222	632,837	(221,615)
Total future value	$ 7,311,891	$ 1,778,137	$ 5,533,754

(1) These amounts reflect the Company's estimate as of June 30, 2010 of expected losses to be expensed and are not included in loss and loss adjustment expense ("LAE") reserve because these losses are less than deferred premium revenue determined on a contract-by-contract basis.

(2) Balances represent discounted amounts.

(3) The effect of consolidating VIEs resulted in a reduction of $174.7 million in future scheduled net earned premium and $90.6 million to expected loss and LAE.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The following table presents a rollforward of the present value of net expected loss and LAE since December 31, 2009 by sector.

Financial Guaranty Insurance
Present Value of Net Expected Loss and Loss Adjustment Expense
Roll Forward by Sector(1)

	Expected Loss to be Paid as of January 1, 2010	Loss Development and Accretion of Discount	Less: Paid Losses	Expected Loss to be Paid as of June 30, 2010
	(in thousands)			
U.S. RMBS:				
First Lien:				
Prime First lien	$	$ 394	$ 9	$ 385
Alt-A First lien	204,368	15,443	28,971	190,840
Alt-A Options ARM	545,238	75,003	49,068	571,173
Subprime	77,528	69,331	2,294	144,565
Total First Lien	827,134	160,171	80,342	906,963
Second Lien:				
CES	199,254	(40,438)	39,881	118,935
HELOCs	(232,913)	55,069	315,844	(493,688)
Total Second Lien	(33,659)	14,631	355,725	(374,753)
Total U.S. RMBS	793,475	174,802	436,067	532,210
Other structured finance	102,613	35,566	5,593	132,586
Public Finance	130,858	(8,155)	34,191	88,512
Subtotal(1)	1,026,946	202,213	475,851	753,308
Effect of consolidating VIEs	(40,045)	(21,437)	(58,851)	(2,631)
Total	$ 986,901	$ 180,776	$ 417,000	$ 750,677

(1) Excludes $3.5 million and $5.2 million of expected losses related to the Other segment recorded in loss reserves on the consolidated balance sheet as of June 30, 2010 and December 31, 2009, respectively.

Expected loss to be paid in the table above represents the present value of losses to be paid net of expected salvage and subrogation and reinsurance cessions. The amount of "expected loss to be paid" differs from "net expected PV losses to be expensed" due primarily to amounts paid that have not yet been expensed and amounts expensed not yet paid.

Loss expense is recognized in the consolidated statements of operations when the sum of claim payments not yet expensed, plus the present value of future expected losses exceeds deferred premium revenue.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The Company's estimate of ultimate losses 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 due to changing economic, fiscal and financial market variability over the long duration of most contracts. The determination of expected loss is an inherently subjective process involving numerous estimates, assumptions and judgments by management. The Company's estimates of expected losses on RMBS transactions takes into account expected recoveries from sellers and originators of the underlying residential mortgages due to breaches in the originator's representations and warranties regarding the loans transferred to the RMBS transaction.

The following table provides information on financial guaranty insurance and reinsurance contracts categorized as BIG as of June 30, 2010 and December 31, 2009:

Financial Guaranty Insurance BIG Transaction Loss Summary
June 30, 2010

	BIG Categories					
	BIG 1	BIG 2	BIG 3	Total BIG	Effect of Consolidating VIEs(2)	Total
	(dollars in millions)					
Number of risks	69	165	87	321		321
Remaining weighted-average contract period (in years)	9.12	9.16	9.61	9.31		9.31
Gross insured contractual payments outstanding:						
Principal	$ 4,306.2	$ 7,810.6	$ 7,101.0	$ 19,217.8	$	$ 19,217.8
Interest	1,581.6	3,609.6	2,058.5	7,249.7		7,249.7
Total	$ 5,887.8	$ 11,420.2	$ 9,159.5	$ 26,467.5	$	$ 26,467.5
Gross expected cash outflows for loss and LAE	$ 475.8	$ 2,054.9	$ 2,246.0	$ 4,776.7	$ (170.4)	$ 4,606.3
Less:						
Gross potential recoveries(1)	492.4	584.5	2,305.3	3,382.2	(174.9)	3,207.3
Discount	19.3	476.7	122.5	618.5	13.5	632.0
Present value of expected cash flows for	$ (35.9)	$ 993.7	$ (181.8)	$ 776.0	$ (9.0)	$ 767.0

loss and LAE						
Deferred premium revenue	$ 97.1	$ 974.5	$ 978.6	$ 2,050.2	$ (161.4)	$ 1,888.8
Gross reserves (salvage) for loss and LAE reported in the balance sheet	$ (39.9)	$ 276.9	$ (545.8)	$ (308.8)	$ 22.8	$ (286.0)
Reinsurance recoverable (payable)	$ (10.4)	$ 7.1	$ (62.6)	$ (65.9)	$	$ (65.9)

(1) Includes estimated future recoveries for breaches of representations and warranties as well as excess spread and draws on HELOCs.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

(2) The Company does not eliminate principal and interest outstanding from its disclosures in order to reflect the full net par outstanding for all financial guaranty insurance contracts, regardless of the accounting model applied.

Financial Guaranty BIG Transaction Loss Summary
December 31, 2009

	BIG Categories			
	BIG 1	**BIG 2**	**BIG 3**	**Total**
	(dollars in millions)			
Number of risks	97	161	37	295
Remaining weighted-average contract period (in years)	8.79	7.63	9.24	8.52
Gross insured contractual payments outstanding:				
Principal	$ 4,230.9	$ 6,804.6	$ 6,671.6	$ 17,707.1
Interest	1,532.3	2,685.1	1,729.2	5,946.6
Total	$ 5,763.2	$ 9,489.7	$ 8,400.8	$ 23,653.7
Gross expected cash outflows for loss and LAE	$ 35.8	$ 1,948.8	$ 2,569.8	$ 4,554.4
Less:				
Gross potential recoveries(1)	3.5	506.6	2,312.0	2,822.1
Discount	18.3	419.8	161.4	599.5
Present value of expected cash flows for loss and LAE	$ 14.0	$ 1,022.4	$ 96.4	$ 1,132.8
Deferred premium revenue	$ 49.3	$ 1,187.3	$ 1,274.2	$ 2,510.8
Gross reserves (salvage) for loss and LAE reported in the balance sheet	$ (0.1)	$ 146.4	$ (282.3)	$ (136.0)
Reinsurance recoverable (payable)	$	$ 4.6	$ (27.6)	$ (23.0)

(1) Includes estimated future recoveries for breaches of representations and warranties as well as excess spread and draws on HELOCs.

The Company used weighted-average risk free rates ranging from 0% to 4.81% and 0.07% to 5.21% to discount expected losses as of June 30, 2010 and December 31, 2009, respectively.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

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

Loss and Loss Adjustment Expense Reserves, Net of Reinsurance

	As of June 30, 2010	As of December 31, 2009
	(in thousands)	
U.S. RMBS:		
First Lien:		
Prime First lien	$ 243	$
Alt-A First lien	31,618	25,463
Alt-A Options ARM	127,311	51,188
Subprime	60,881	21,816
Total First Lien	220,053	98,467
Second Lien:		
CES	6,022	21,172
HELOC	15,068	18,204
Total Second Lien	21,090	39,376
Total US RMBS	241,143	137,843
Other structured finance	102,975	67,661
Public Finance	55,825	67,723
Total financial guaranty	399,943	273,227
Other	1,920	2,121
Subtotal	401,863	275,348
Effect of consolidating VIEs	(17,436)	
Total	$ 384,427	$ 275,348

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The following table provides information on financial guaranty insurance and reinsurance contracts recorded as an asset on the consolidated balance sheets.

Summary of Recoverables Recorded as Salvage and Subrogation

	As of June 30, 2010	As of December 31, 2009
	(in thousands)	
U.S. RMBS:		
First Lien:		
Alt-A First Lien	$ 1,378	$
Alt-A Options ARM	24,035	
Subprime		76
Total First Lien	25,413	76
Second Lien:		
CES	33,742	91
HELOC	650,317	416,651
Total Second Lien	684,059	416,742
Total U.S. RMBS	709,472	416,818
Other structured finance	824	995
Public Finance	15,968	2,425
Total	726,264	420,238
Less: Ceded recoverable(1)	83,489	42,100
Net recoverable	642,775	378,138
Effect of consolidating VIEs	(40,225)	
Total net recoverable	$ 602,550	$ 378,138

(1) Recorded in "reinsurance balances payable, net" on the consolidated balance sheets.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

Loss and Loss Adjustment Expenses (Recoveries)
By Type

	Second Quarter		Six Months	
	2010	2009	2010	2009
	(in thousands)			
Financial Guaranty:				
U.S. RMBS:				
First Lien:				
Prime First lien	$ (32)	$ (519)	$ 30	$
Alt-A First lien	7,997	6,296	13,428	6,447
Alt-A Options ARM	56,595	8,237	101,029	8,163
Subprime	16,268	5,040	40,981	5,851
Total First Lien	80,828	19,054	155,468	20,461
Second Lien:				
CES	(11,420)	33,322	(7,075)	35,320
HELOC	11,193	22,081	34,813	40,601
Total Second Lien	(227)	55,403	27,738	75,921
Total U.S. RMBS	80,601	74,457	183,206	96,382
Other structured finance	31,661	(17,189)	41,829	(12,367)
Public Finance	(16,756)	306	10,935	22,013
Total Financial Guaranty	95,506	57,574	235,970	106,028
Other		(19,544)	18	11,756
Subtotal	95,506	38,030	235,988	117,784
Effect of consolidating VIEs	(24,350)		(34,331)	
Total loss and LAE	$ 71,156	$ 38,030	$ 201,657	$ 117,784

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

Net Losses Paid on Financial Guaranty Insurance and Reinsurance Contracts

	Second Quarter		Six Months	
	2010	2009	2010	2009
	(in thousands)			
U.S. RMBS:				
First Lien:				
Prime First lien	$ 9	$	$ 9	$
Alt-A First lien	14,986		28,971	
Alt-A Options ARM	32,655	4	49,068	4
Subprime	1,425	338	2,294	790
Total First Lien	49,075	342	80,342	794
Second Lien:				
CES	19,406	23,967	39,881	34,232
HELOC	166,865	63,250	315,844	114,907
Total Second Lien	186,271	87,217	355,725	149,139
Total US RMBS	235,346	87,559	436,067	149,933
Other structured finance	1,878	27,384	5,593	21,379
Public Finance	9,736	10,572	34,191	18,090
Subtotal	246,960	125,515	475,851	189,402
Effect of consolidating VIEs	(40,868)		(58,851)	
Total	$ 206,092	$ 125,515	$ 417,000	$ 189,402

Loss Reserving

In accordance with the Company's standard practices, the Company evaluated the most current available information as part of its loss estimation process, including trends in delinquencies and charge-offs on the underlying loans and its experience in requiring providers of representations and warranties to purchase ineligible loans out of these transactions. Most of the Company's expected loss and loss adjustment expense reserves and paid losses relate to U.S. RMBS. As has been widely reported in the press, unprecedented levels of delinquencies and defaults have negatively impacted the mortgage market, especially U.S. RMBS issued in the period from 2005 through 2007. Based on information observed during the quarter (particularly early stage delinquencies), the Company determined that it may be witnessing the beginning of an improvement in the housing and mortgage markets. The Company also formed a view that any improvement in the second lien loan markets may be more gradual than it had assumed in its prior projection scenarios for second liens. As a result, the Company adjusted from prior quarters the assumptions and probability weightings of its loss projection scenarios to reflect those views. These changes were made with respect to how scenarios were run in the first quarter of 2010. The scenarios used in the first quarter of 2010, with the exception of an adjustment to the subprime severity, were the same as those employed at year-end 2009.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

U.S. Second Lien RMBS: HELOCs and CES

The Company insures two types of second lien RMBS, those secured by HELOCs and those secured by CES 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 CES. 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.

The performance of the Company's HELOC and CES exposures began to deteriorate in 2007, and transactions, particularly those originated in the period from 2005 through 2007, continue to perform below the Company's original underwriting expectations. While insured securities benefitted from structural protections within the transactions designed to absorb collateral losses in excess of previous historical high levels, in many second lien RMBS projected losses now exceed those structural protections.

The Company believes the primary variables impacting its expected losses in second lien RMBS transactions are the amount and timing of future losses in the collateral pool supporting the transaction and the amount of loans repurchased for breaches of representations and warranties. Expected losses are also a function of the structure of the transaction, the voluntary prepayment rate, typically also referred as conditional prepayment rate ("CPR") of the collateral, the interest rate environment 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.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The following table shows the Company's key assumptions used in its calculation of estimated expected losses for these types of policies as of June 30, 2010, March 31, 2010 and December 31, 2009:

Key Assumptions in Base Case Expected Loss Estimates
Second Lien RMBS(1)

HELOC Key Variables	June 30, 2010	March 31, 2010	December 31, 2009
Plateau conditional default rate ("CDR")	8.3 - 27.5%	11.5 - 38.0%	10.7 - 40.0%
Final CDR trended down to	0.5 - 3.2%	0.5 - 3.2%	0.5 - 3.2%
Expected Period until Final CDR	24 months	21 months	21 months
Initial CPR	0.9 - 20.1%	0.4 - 13.4%	1.9 - 14.9%
Final CPR	10%	10%	10%
Loss Severity	95%	95%	95%
Future Repurchase of Ineligible Loans	$875 million	$849 million	$828 million
Initial Draw Rate	0.2 - 6.9%	0.2 - 4.8%	0.1 - 2.0%

CES Key Variables	June 30, 2010	March 31, 2010	December 31, 2009
Plateau CDR	8.0 - 28.0%	7.4 - 32.7%	21.5 - 44.2%
Final CDR Rate trended down to	2.9 - 8.1%	2.9 - 8.1%	3.3 - 8.1%
Expected Period until Final CDR achieved	24 months	21 months	21 months
Initial CPR	0.8 - 10.1%	1.6 - 8.4%	0.8 - 3.6%
Final CPR	10%	10%	10%
Loss Severity	95%	95%	95%
Future Repurchase of Ineligible Loans	$123 million	$137 million	$77 million

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

For second lien transactions the Company calculates expected losses in the following fashion. A loan is generally "charged off" by the securitization's servicer once the loan is 180 days past due and therefore the Company's projections assume that a loss is charged off once it 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 transactions and then applying those liquidation rates to the amount of loans in the delinquency categories. The amount of loans projected to default in the third, fourth and fifth month are then expressed as conditional default rates ("CDR"), and the average of those CDRs is then used as the basis for calculating defaults after the fifth month. In the base scenario, this CDR (the "plateau CDR") is held constant for one month. Last quarter, the base scenario's plateau was 4 months, the change this quarter reflects an improvement in the mortgage and real estate markets. Once the plateau period has ended, the CDR is assumed to gradually trend down in uniform increments to its final long-term steady state CDR. In the base scenario, the time over which the CDR trends down to its final CDR is eighteen months. Last quarter,

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6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

the base scenario's ramp was 12 months, the change this quarter was implemented to reflect that the recovery may take longer than the Company had previously anticipated. Therefore, in the base case scenario, the total time from the current period to the end of the ramp (when the long-term steady CDR is reached) is 24 months. The long-term steady state CDRs are calculated as the constant conditional default rates that would have yielded the amount of losses originally expected at underwriting.

Breaches of Representations and Warranties Second Lien U.S. RMBS: As mentioned above, performance of the collateral underlying certain 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 devoting internal resources to review the mortgage files surrounding many of the defaulted loans. As of June 30, 2010 the Company had performed a detailed review of approximately 24,800 files, representing nearly $1.9 billion in outstanding par of defaulted second lien loans underlying insured transactions, and identified a material number of defaulted loans that breach representations and warranties regarding the characteristics of the loans such as misrepresentation of income or occupation, undisclosed debt and non- compliance with underwriting guidelines at loan origination. The Company continues to review new files as new loans default and as new loan files are made available to it. As of June 30, 2010 following negotiation with the sellers and originators of the breaching loans, the Company had reached agreement to have $227 million of the second lien loans repurchased and has included in its net expected loss estimates for second liens as of June 30, 2010 an estimated benefit from repurchases of $998.0 million of second lien loans, of which $875.0 million relates to HELOCs and the remainder to CES. The amount the Company ultimately recovers related to contractual representations and warranties is uncertain and subject to a number of factors including the counterparty's ability to pay, the number and amount of loans determined to have breached representations and warranties and, potentially, negotiated settlements or litigation. 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 representations and warranties the Company considered: the credit worthiness of the provider of representations and warranties, the number of breaches found on defaulted loans, the success rate resolving these breaches with the provider of the representations and warranties and the potential amount of time until the recovery is realized. This calculation involved a variety of scenarios which ranged from the Company recovering substantially all of the losses it incurred due to violations of representations and warranties, to the Company realizing very limited recoveries. These scenarios were probability weighted in order to determine the recovery incorporated into the Company's reserve estimate. This approach was used for both loans that had already defaulted and those assumed to default in the future. Recoveries were limited to amounts paid or expected to be paid out by the Company.

The rate at which the principal amount of loan is prepaid may impact both the amount of losses projected (which is a function of the CDR 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 CPR is assumed to continue until the end of the plateau before gradually increasing to the final CPR over the same period the CDR decreases. The final CPR is assumed to be 10% for both HELOC and CES transactions. This level is much higher than current rates, but lower than the historical average, which reflects the Company's continued uncertainty about performance of the borrowers in these transactions. This pattern is consistent with how the Company modeled the CPR in both the first quarter and year-end.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices, loss severities (assumed to be 95%) and HELOC draw rates (the amount of new advances provided on existing HELOCs expressed as a percent of current outstanding advances). For HELOC transactions, the draw rate is assumed to decline from the current level to the final draw rate over a period of three months. The final draw rates were assumed to range from 0.1% to 3.5%.

In estimating expected losses, the Company modeled and probability weighted three possible CDR curves applicable to the period preceding the return to the long-term steady state CDR. 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 CDR 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.

In the most recent prior quarters, the Company's base case assumed a 4 month CDR plateau and a 12 month CDR assumed the date of commencement ramp down. Reflecting the Company's belief that the primary variable relating to the Company's assumption was when an improvement in the mortgage markets would begin, in recent prior quarters it also modeled a 1 month CDR plateau and a 7 month CDR plateau. Consistent with the Company's current belief that an improvement in the mortgage market may be beginning but that any recovery may be more gradual that had previously been anticipated, this quarter's base case assumed a 1 month plateau and an 18 month ramp down. Increasing the CDR plateau to 4 months and keeping the ramp down at 18 months would increase the expected loss by approximately $106.0 million for HELOC transactions and $10.1 million for CES transactions. On the other hand, keeping the CDR plateau at 1 month but decreasing the length of the CDR ramp down back to last quarter's 12 month assumption would decrease the expected loss from those taken by approximately $110.5 million for HELOC transactions and $10.0 million for CES transactions.

U.S. First Lien RMBS: Alt-A, 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 is comprised 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 RMBS." The collateral supporting such transactions is comprised of first-lien residential mortgage loans made to "prime" quality borrowers that 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 negatively amortize the loan (*i.e*., increase the amount of principal owed), the transaction is referred to as an "Option ARM." Finally, transactions may be primarily composed of loans made to prime borrowers.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The performance of the Company's first lien RMBS exposures began to deteriorate in 2007 and transactions, particularly those originated in the period from 2005 through 2007 and continue to perform below the Company's original underwriting expectations. The Company currently projects first lien collateral losses many times those expected at the time of underwriting. While insured securities benefitted from structural protections within the transaction designed to absorb some of the collateral losses, in many first lien RMBS projected losses exceed those structural protections.

The majority of projected losses in first lien RMBS transactions are expected to come from mortgage loans that are delinquent or in foreclosure, an increase in delinquent and foreclosed loans beyond those delinquent and foreclosed last quarter 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 following table shows the Company's liquidation assumptions for various delinquency categories as of June 30 and March 31, 2010. 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 over two years.

	June 30, 2010	March 31, 2010
30 - 59 Days Delinquent		
Alt-A First lien	50%	50%
Alt-A Option ARM	50	50
Subprime	45	45
60 - 89 Days Delinquent		
Alt-A First lien	65	65
Alt-A Option ARM	65	65
Subprime	65	65
90 Bankruptcy		
Alt-A First lien	75	75
Alt-A Option ARM	75	75
Subprime	70	70
Foreclosure		
Alt-A First lien	85	85
Alt-A Option ARM	85	85
Subprime	85	85
Real Estate Owned		
Alt-A First lien	100	100
Alt-A Option ARM	100	100
Subprime	100	100

Losses are also projected on first lien RMBS that are presently current loans. The Company projects these losses by applying a CDR trend. The start of that CDR trend is based on the defaults the Company projected would emerge from currently delinquent and foreclosed loans. The total amount of expected defaults from these loans is then translated into a constant CDR (*i.e.*, the CDR plateau), which, if applied for each of the next 24 months, would be sufficient to produce

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

approximately the amount of losses that were calculated to emerge from the various delinquency categories. In the base case, each transaction's CDR is projected to improve over 12 months to an intermediate CDR (calculated as 15% of its CDR plateau); that intermediate CDR is held constant for 36 months then trails off in steps to a final CDR of 5% of the CDR plateau. In the First Quarter 2010, the CDR plateau was held constant for 3 months before it was assumed to begin improving, which reflects the Company's view that an improvement in the real estate and mortgage market may be beginning. 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 occur using the projected CDR 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 historical highs and the Company is assuming that these historical highs continue for another year. The Company determines its initial loss severity based on actual recent experience. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning in June 2011, and in the base scenario decline over two years to 40%.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

The following table shows the Company's key assumptions used in its calculation of expected losses for these types of policies as of June 30, 2010, March 31, 2010 and December 31, 2009:

Key Assumptions in Base Case Expected Loss Estimates of First Lien RMBS Transactions

	June 30, 2010	March 31, 2010	December 31, 2009
Alt A First Lien			
Plateau CDR	2.2% - 40.6%	2.0% - 34.4%	1.5% - 35.7%
Intermediate CDR	0.3% - 6.1%	0.3% - 5.2%	0.2% - 5.4%
Final CDR	0.1% - 2.0%	0.1% - 1.7%	0.1% - 1.8%
Initial Loss Severity	60%	60%	60%
Future Repurchases of Ineligible Loans	$79.2 million	$75.8 million	$64.2 million
Initial CPR	0.0% - 16.2%	0.0% - 27.9%	0.0% - 20.5%
Final CPR	10%	10%	10%
Alt A Option ARM			
Plateau CDR	12.5% - 29.9%	15.1% - 27.4%	13.5% - 27.0%
Intermediate CDR	1.9% - 4.5%	2.3% - 4.1%	2.0% - 4.1%
Final CDR	0.6% - 1.5%	0.8% - 1.4%	0.7% - 1.4%
Initial Loss Severity	60%	60%	60%
Future Repurchases of Ineligible Loans	$242.8 million	$236.0 million	$203.7 million
Initial CPR	0.0% - 9.3%	0.0% - 12.3%	0.0% - 3.5%
Final CPR	10%	10%	10%
Subprime			
Plateau CDR	8.4% - 34.4%	7.8% - 30.4%	7.1% - 29.5%
Intermediate CDR	1.3% - 5.2%	1.2% - 4.6%	1.1% - 4.4%
Final CDR	0.4% - 1.7%	0.4% - 1.5%	0.4% - 1.5%
Initial Loss Severity	75%	75%	70%
Future Repurchases of Ineligible Loans	$0	$0	$0
Initial CPR	0.0% - 12.0%	0.0% - 12.5%	0.0% - 12.0%
Final CPR	10%	10%	10%

The rate at which the principal amount of loan is prepaid may impact both the amount of losses projected (since that amount is a function of the CDR 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 CPR follows a similar pattern to that of the CDR. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be either 10% or 15% depending on the scenario run.

Breaches of Representations and Warranties First Lien U.S. RMBS: As mentioned above, performance of the collateral underlying certain 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 devoting internal resources to review the mortgage files surrounding many of the defaulted loans. As of June 30, 2010 the Company had performed a detailed review of approximately

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

5,200 files representing nearly $2.3 billion in outstanding par of defaulted first lien loans underlying insured transactions, and identified a material number of defaulted loans that breach representations and warranties regarding the characteristics of the loans. The Company continues to review new files as new loans default and as new loan files are made available to it. Following negotiation with the sellers and originators of the breaching loans, as of June 30, 2010, the Company had reached agreement to have $50.5 million of first lien loans repurchased. The Company has included in its net expected loss estimates for first liens as of June 30, 2010 an estimated benefit from repurchases of $322.8 million, of which $242.8 million relates to Option ARMs, $79.2 million to Alt A first liens and $0.8 million to prime transactions. The amount the Company will ultimately recover related to contractual representations and warranties is uncertain and subject to a number of factors including the counterparty's ability to pay, the number and amount of loans determined to have breached representations and warranties 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 representations and warranties, the Company considered the credit worthiness of the provider of representations and warranties, the number of breaches found on defaulted loans, the success rate in resolving these breaches with the provider of the representations and warranty and the potential amount of time until the recovery is realized. This calculation involved a variety of scenarios which ranged from the Company recovering substantially all of the losses it incurred due to violations of representations and warranties to the Company realizing very limited recoveries. These scenarios were probability weighted in order to determine the recovery incorporated into the Company's reserve estimate. This approach was used for both loans that had already defaulted and those assumed to default in the future. In all cases, recoveries were limited to amounts paid or expected to be paid by the Company.

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 risk ratings of those transactions based on actual performance and management's estimates of future performance.

In establishing its reserves, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast an economic recovery is expected to occur. The primary variable when modeling sensitivities was how quickly the CDR returned to its modeled equilibrium, which was defined as 5% of the current CDR. The Company also stressed CPRs and the speed of recovery of loss severity rates. In a somewhat more stressful environment than that of the base case, where the CDR recovery was more gradual and the final CPR was 15% rather than 10%, the Company's expected losses would increase by approximately $11.3 million for Alt A first liens, $89.9 million for Option ARMs, $16.3 million for subprime and $0.1 million for prime transactions. In an even more stressful scenario where the CDR plateau was extended 3 months (so was 27 months long) before the same more gradual CDR recovery and loss severities were assumed to recover over 4 rather than 2 years (and subprime loss severities were assumed to recover only to 55%), the Company's expected losses would increase by approximately $39.5 million for Alt A first liens, $196.7 million for Option ARMs, $106.3 million for subprime and $0.6 million for prime transactions. The Company also considered a scenario where the recovery was faster than in its base case. In this scenario, where the CDR plateau was 3 months shorter (21 months, effectively assuming that liquidation rates would

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

improve) and the CDR recovery was more pronounced, the Company's expected losses would decrease by approximately $21.4 million for Alt A first liens, $83.0 million for Option ARMs, $29.5 million for subprime and $0.3 million for prime transactions.

"XXX" Life Insurance Transactions

The Company has insured $2.1 billion of net par in "XXX" life insurance reserve securitization transactions based on discrete blocks of individual life insurance business. In these transactions, the monies raised by the sale of the bonds insured by the Company are 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. In order for the Company to incur an ultimate net loss on these transactions, adverse experience on the underlying block of life insurance policies and/or credit losses in the investment portfolio would need to exceed the level of credit enhancement built into the transaction structures. In particular, such credit losses in the investment portfolio could be realized in the event that circumstances arise resulting in the early liquidation of assets at a time when their market value is less than their intrinsic value.

The Company's $2.1 billion in net par of XXX Life Insurance transactions include $882.5 million rated BIG by the Company as of June 30, 2010, and corresponded to three transactions. These two of the three XXX transactions had material amounts of their assets invested in US RMBS transactions. Based on its analysis of the information currently available, including estimates of future investment performance provided by the current investment manager, projected credit impairments on the invested assets and performance of the blocks of life insurance business at June 30, 2010, the Company's gross expected loss, prior to reinsurance or netting of unearned premium, for its two BIG XXX insurance transactions was $63.3 million and its net reserve was $51.1 million.

On December 19, 2008, the Company sued J.P. Morgan Investment Management Inc. ("JPMIM"), the investment manager in one of the transactions, which relates to Orkney Re II p.l.c. ("Orkney Re II") in New York Supreme Court ("Court") 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. On January 28, 2010 the Court ruled against the Company on a motion to dismiss filed by JPMIM. Oral argument on the Company's appeal was heard before the Appellate Division on May 26, 2010.

Public Finance Transactions

Within the public finance category, $3.5 billion was rated BIG, with the largest BIG exposure being a public finance transaction for sewer service in Jefferson County, Alabama. The Company's total exposure to this transaction is approximately $512 million of net par. The Company has made debt service payments during the year and expects to make additional payments in the near term. The Company is continuing its risk remediation efforts for this exposure. In addition, during the Second Quarter 2010, the Company sued JPMorgan Chase Bank, N.A. and JPMorgan Securities, Inc. (together, "JPMorgan"), the underwriter of debt issued by Jefferson County, in New York Supreme Court alleging that JPMorgan induced the Company to issue its insurance policies in respect of such debt through material and fraudulent misrepresentation and omissions, including concealing that it had secured its

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

6. Financial Guaranty Contracts Accounted for as Insurance (Continued)

position as underwriter and swap provider through bribes to Jefferson County commissioners and others.

Other Sectors and Transactions

The Company continues to closely monitor other sectors and individual financial guaranty insurance transactions it feels warrant the additional attention, including, as of June 30, 2010, its commercial mortgage exposure of $912.5 million of net par, its trust preferred securities ("TruPS") collateralized debt obligations ("CDOs") exposure of $1.1 billion, its student loan exposure of $4.1 billion net par and its U.S. health care exposure of $21.9 billion of net par.

7. Credit Derivatives

Certain financial guaranty contracts written in credit derivative form, principally in the form of insured CDS contracts, have been deemed to meet the definition of a derivative under GAAP, which requires that an entity recognize as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value with changes in fair value recorded in the consolidated statements of operations. GAAP requires companies to recognize freestanding or embedded derivatives relating to beneficial interests in securitized financial instruments.

In general, the Company structures credit derivative transactions such that the circumstances giving rise to the Company's obligation to make loss payments are similar to those for financial guaranty contracts written in insurance form and only occurs as losses are realized on the underlying reference obligation. Nonetheless, credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. ("ISDA") documentation and operate differently from financial guaranty contracts written in insurance form. 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 contract written in insurance form. In addition, while the Company's exposure under credit derivatives, like the Company's exposure under financial guaranty contracts written in insurance form, 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. 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.

Some of the Company's CDS have rating triggers that allow certain CDS counterparties to terminate in the case of downgrades. If certain of its credit derivative contracts were terminated, the Company could be required to make a termination payment as determined under the relevant documentation, although under certain documents, the Company may have 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. As of June 30, 2010 and December 31, 2009, if AGC's ratings were downgraded to levels between BBB or Baa2 and BB+ or Ba1, certain CDS counterparties could terminate certain CDS contracts covering approximately $5.9 billion and $6.0 billion par insured, respectively. As of the date of this filing, none of AG Re,

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

AGRO or AGM had any material CDS exposure subject to termination based on its rating. 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.

Under a limited number of other CDS contracts, the Company may be required to post eligible securities as collateral generally cash or U.S. government or agency securities. For certain of such contracts, this requirement is based on a mark-to-market valuation, as determined under the relevant documentation, in excess of contractual thresholds that decline or are eliminated if the Company's ratings decline. Under other contracts, the Company has negotiated caps such that the posting requirement cannot exceed a certain amount. As of June 30, 2010, without giving effect to thresholds that apply under current ratings, the amount of par that is subject to collateral posting is approximately $18.9 billion. Counterparties have agreed that for approximately $17.6 billion of that $18.9 billion, the maximum amount that the Company could be required to post at current ratings is $435 million; if AGC were downgraded to A+ by Standard & Poor's Rating Services ("S&P") or A3 by Moody's Investors Service, Inc. ("Moody's"), that maximum amount would be $485 million. As of June 30, 2010, the Company had posted approximately $637.7 million of collateral in respect of approximately $18.8 billion of par insured. The Company may be required to post additional collateral from time to time, depending on its ratings and on the market values of the transactions subject to the collateral posting.

Realized gains and other settlements on credit derivatives include credit derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts, premiums paid and payable for credit protection the Company has purchased, contractual claims paid and payable and received and receivable related to insured credit events under these contracts, ceding commissions (expense) income and realized gains or losses related to their early termination.

The following table disaggregates realized gains and other settlements on credit derivatives into its component parts for the Second Quarter 2010 and 2009 and Six Months 2010 and 2009:

Realized Gains and Other Settlements on Credit Derivatives

	Second Quarter		Six Months	
	2010	2009	2010	2009
	(in thousands)			
Net credit derivative premiums received and receivable	$ 50,679	$ 27,953	$ 104,372	$ 57,468
Net Ceding commissions (paid and payable) received and receivable	1,044	(152)	2,049	(30)
Realized gains on credit derivatives	51,723	27,801	106,421	57,438
Net credit derivative losses (paid and payable) recovered and recoverable	(13,370)	15	(41,365)	(9,043)
Total realized gains and other settlements on credit derivatives	$ 38,353	$ 27,816	$ 65,056	$ 48,395

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

Net unrealized gains (losses) on credit derivatives represent the adjustments for changes in fair value in excess of realized gains and other settlements that are recorded in each reporting period. Changes in unrealized gains and losses on credit derivatives are reflected in the consolidated statements of operations. Fair value of credit derivatives is reflected as either net assets or net liabilities determined on a contract by contract basis in the Company's consolidated balance sheets. Unrealized gains and losses resulting from changes in the fair value of credit derivatives occur primarily because of changes in interest rates, credit spreads, credit ratings of the referenced entities, claim payments, and the issuing company's own credit rating, credit spreads and other market factors. Except for estimated credit impairments, the unrealized gains and losses on credit derivatives will reduce to zero as the exposure approaches its maturity date.

The Company determines the fair value of its credit derivative contracts primarily through modeling that uses various inputs to derive an estimate of the value of the Company's contracts in principal markets. Inputs include expected contractual life and credit spreads, based on observable market indices and on recent pricing for similar contracts. Credit spreads capture the impact of recovery rates and performance of underlying assets, among other factors, on these contracts. 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. If credit spreads of the underlying obligations change, the fair value of the related credit derivative changes. Market liquidity could also impact valuations of the underlying obligations.

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 structure 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. An overall narrowing of spreads generally results in an unrealized gain on credit derivatives for the Company and an overall widening of spreads generally results in an unrealized loss for the Company.

Effect of the Company's Credit Spread on Credit Derivatives Fair Value

	As of June 30, 2010	As of December 31, 2009
	(dollars in millions)	
Quoted price of CDS contract (in basis points):		
AGC	1,010	634
AGM	802	541
Fair value of CDS contracts:		
Before considering implication of the Company's credit spreads	$ (5,636.3)	$ (5,830.8)
After considering implication of the Company's credit spreads	$ (1,274.9)	$ (1,542.1)

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

As of June 30, 2010, AGC's and AGM's credit spreads remained relatively wide compared to pre-2007 levels, as did general market spreads. The $5.6 billion liability as of June 30, 2010, which represents the fair value of CDS contracts 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 deals, as well as trust-preferred securities. When looking at June 30, 2010 compared to December 31, 2009, there was tightening of general market spreads as well as a run-off in net par outstanding and the effect of extending estimated remaining lives, resulting in a gain of approximately $194.5 million before taking into account AGC or AGM's credit spreads.

Management believes that the trading level of AGC's credit spread is due to the correlation between AGC's risk profile and that experienced currently by the broader financial markets and increased demand for credit protection against AGC as the result of its direct segment financial guarantee volume as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC's credit spread were declines in fixed income security market prices primarily attributable to widening spreads in certain markets as a result of the continued deterioration in credit markets and some credit rating downgrades. The higher credit spreads in the fixed income security market are due to the recent lack of liquidity in the high yield CDO and collateralized loan obligation ("CLO") markets as well as continuing market concerns over the most recent vintages of subprime RMBS and CMBS.

The estimated remaining weighted average life of credit derivatives was 5.6 years at June 30, 2010 and 6.0 years at December 31, 2009.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

The components of the Company's net par outstanding as of June 30, 2010 and December 31, 2009 are:

Net Par Outstanding on Credit Derivatives

	As of June 30, 2010				As of December 31, 2009			
Asset Type	Original Subordination(1)	Current Subordination(1)	Net Par Outstanding	Weighted Average Credit Rating(2)	Original Subordination(1)	Current Subordination(1)	Net Par Outstanding	Weighted Average Credit Rating(2)
	(dollars in millions)							
Financial Guaranty Direct:								
Pooled corporate obligations:								
CLOs/CBOs	31.7%	28.9%	$ 46,761	AAA	31.1%	27.4%	$ 49,447	AAA
Synthetic investment grade pooled corporate	18.2	16.4	12,673	AAA	19.2	17.7	14,652	AAA
Synthetic high yield pooled corporate	38.0	33.1	8,439	AA+	36.7	34.4	11,040	AAA
TruPS CDOs	46.8	34.1	5,793	BB+	46.6	37.3	6,041	BBB-
Market value CDOs of corporate obligations	32.2	44.4	5,566	AAA	32.1	36.9	5,401	AAA
Total pooled corporate obligations	31.4	28.9	79,232	AAA	30.9	27.9	86,581	AAA
U.S. RMBS:								
Alt-A Option ARMs and Alt-A First Lien	20.1	19.7	5,076	B+	20.3	22.0	5,662	BB
Subprime First lien (including NIMs)	27.5	57.6	4,733	A+	27.6	52.4	4,970	A+
Prime first lien	10.9	10.4	524	B	10.9	11.1	560	BB
CES and HELOCs		18.9	92	B		19.2	111	B
Total U.S. RMBS	22.8	36.1	10,425	BBB-	22.9	34.6	11,303	BBB
CMBS	28.7	29.2	7,055	AAA	28.5	30.9	7,191	AAA
Other			13,806	AA-			15,700	AA-
Total Financial Guaranty Direct			110,518	AA+			120,775	AA+
Financial Guaranty Reinsurance			1,648	AA-			1,642	AA-
Total			$ 112,166	AA+			$ 122,417	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.

(2) Based on the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies; however, the ratings in the above table may not be the same as ratings assigned by any nationally recognized rating agency.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

The components of the Company's change in unrealized gains (losses) on credit derivatives are as follows:

Change in Unrealized Gains (Losess) on Credit Derivatives

Asset Type	Second Quarter 2010	Second Quarter 2009	Six Months 2010	Six Months 2009
	(in millions)			
Financial Guaranty Direct:				
Pooled corporate obligations:				
CLOs/CBOs	$ 1.8	$ 1.6	$ 3.3	$ (75.8)
Synthetic investment grade pooled corporate	3.6	1.3	(4.0)	2.9
Synthetic high yield pooled corporate	(5.9)		14.5	
TruPS CDOs	35.5	(75.7)	65.2	(0.4)
Market value CDOs of corporate obligations	(0.1)	(0.3)	0.3	(7.3)
Commercial Real Estate		0.1		(2.1)
CDO of CDOs (corporate)		0.6		(0.2)
Total pooled corporate obligations	34.9	(72.4)	79.3	(82.9)
U.S. RMBS:				
Alt-A Option ARMs and Alt-A First Lien	9.6	(201.8)	160.5	(245.9)
Subprime First lien (Including NIMs)	0.3	0.7	0.9	3.7
Prime first lien	5.2	(21.7)	19.4	(70.7)
CES and HELOCs	(14.3)		(5.9)	
Total U.S. RMBS	0.8	(222.8)	174.9	(312.9)
CMBS	0.3	1.0	9.8	(30.2)
Other(1)	(0.8)	44.2	23.4	186.8
Total Financial Guaranty Direct	35.2	(250.0)	287.4	(239.2)
Financial Guaranty Reinsurance	(0.1)	(4.3)	(0.2)	11.9
Total	$ 35.1	$ (254.3)	$ 287.2	$ (227.3)

(1) "Other" includes all other U.S. and international asset classes, such as commercial receivables, international infrastructure, international RMBS and home equity securities, and pooled infrastructure securities.

The Company's exposure to pooled corporate obligations is highly diversified in terms of obligors and, except in the case of TruPS CDOs, 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 CLOs or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% 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.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. 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 CDOs issued by banks, real estate investment trusts ("REITs") and insurance companies, while CLOs typically contain primarily senior secured obligations. Finally, TruPS CDOs typically contain interest rate hedges that may complicate the cash flows. 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 $3.9 billion of exposure to four pooled infrastructure transactions comprised of 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. The remaining $9.9 billion of exposure in "Other" CDS contracts is comprised of numerous deals typically structured with significant underlying credit enhancement and spread across various asset classes, such as commercial receivables, international RMBS and home equity securities, infrastructure, regulated utilities and consumer receivables.

The unrealized gain for Six Months 2010 on "Other" CDS contracts is primarily attributable to implied spreads narrowing on several different transactions, none of which represent material amounts. The unrealized gain for Second Quarter and Six Months 2009 on "Other" CDS contracts is primarily attributable to implied spreads narrowing on several UK public finance infrastructure transactions and a film securitization transaction.

With considerable volatility continuing in the market, unrealized gains (losses) on credit derivatives may fluctuate significantly in future periods.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

The following tables present additional details about the Company's unrealized gain or loss on credit derivatives associated with U.S. RMBS by vintage for the Second Quarter 2010 and Six Months 2010:

U.S. Residential Mortgage-Backed Securities

Vintage	Original Subordination(1)	Current Subordination(1)	Net Par Outstanding (in millions)	Weighted Average Credit Rating(2)	Second Quarter 2010 Unrealized Gain (Loss) (in millions)	Six Months 2010 Unrealized Gain (Loss) (in millions)
2004 and Prior	6.1%	19.4%	$ 178	A	$ (0.1)	$ 0.3
2005	26.8	58.9	3,273	AA-	(0.1)	1.7
2006	28.5	50.5	1,705	BBB	(4.3)	1.1
2007	19.1	17.1	5,269	B	5.3	171.8
2008						
2009						
2010						
Total	22.8%	36.1%	$ 10,425	BBB-	$ 0.8	$ 174.9

(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.

(2) Based on the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies; however, the ratings in the above table may not be the same as ratings assigned by any nationally recognized rating agency.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

The following table presents additional details about the Company's unrealized gain or loss on credit derivatives associated with CMBS transactions by vintage for the Second Quarter 2010 and Six Months 2010:

Commercial Mortgage-Backed Securities

Vintage	Original Subordination(1)	Current Subordination(1)	Net Par Outstanding (in millions)	Weighted Average Credit Rating(2)	Second Quarter 2010 Unrealized Gain (Loss) (in millions)	Six Months 2010 Unrealized Gain (Loss) (in millions)
2004 and Prior	28.5%	43.8%	$ 579	AAA	$	$ 0.3
2005	17.6	25.0	684	AAA	(0.1)	0.3
2006	26.4	25.3	4,377	AAA	0.5	5.0
2007	41.1	37.5	1,415	AAA	(0.1)	4.2
2008						
2009						
2010						
Total	28.7%	29.2%	$ 7,055	AAA	$ 0.3	$ 9.8

(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.

(2) Based on the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies; however, the ratings in the above table may not be the same as ratings assigned by any nationally recognized rating agency.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

7. Credit Derivatives (Continued)

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:

	As of June 30, 2010	
Credit Spreads(1)	**Estimated Net Fair Value (Pre-Tax)**	**Estimated Pre-Tax Change in Gain/(Loss)**
	(in millions)	
100% widening in spreads	$ (3,099.1)	$ (1,824.3)
50% widening in spreads	(2,264.1)	(989.3)
25% widening in spreads	(1,737.9)	(463.1)
10% widening in spreads	(1,462.9)	(188.1)
Base Scenario	(1,274.9)	
10% narrowing in spreads	(1,151.9)	122.9
25% narrowing in spreads	(988.6)	286.2
50% narrowing in spreads	(662.4)	612.4

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

8. Consolidation of VIEs

The Company has exposure to VIEs through the issuance of financial guaranty insurance contracts that typically ensure the timely payment of principal and interest to the holders of VIE debt. As part of the terms of its insurance contracts, at the outset of a contract the Company obtains certain protective rights over the control of a VIE based upon the occurrence of certain trigger events, such as deal performance or servicer or collateral manager financial health. At deal inception, the Company typically is not deemed to be have control of a VIE, however, once a trigger event occurs the Company's control of the VIE typically increases.

Under accounting rules previously in effect, the Company determined whether it was the primary beneficiary (i.e., the variable interest holder required to consolidate a VIE) of a VIE by first performing a qualitative analysis of the VIE that includes, among other factors, its capital structure, contractual terms, which variable interests create or absorb variability, related party relationships and the design of the VIE. The Company performed a quantitative analysis when qualitative analysis was not conclusive.

The accounting guidance effective January 1, 2010, requires the Company to perform an analysis to determine whether its variable interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Additionally, this guidance requires an ongoing reassessment of whether the Company is the primary beneficiary of a VIE.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

8. Consolidation of VIEs (Continued)

Pursuant to the new accounting guidance, the Company evaluated its power to direct the significant activities that most significantly impact the economic performance of VIEs that have debt obligations insured by the Company and, accordingly, where the Company is obligated to absorb VIE losses that could potentially be significant to the VIE. The Company determined that it is the primary beneficiary of 20 VIEs at June 30, 2010 based on the assessment of its control rights over servicer or collateral manager replacement, given that servicing/managing collateral were deemed to be the VIEs' most significant activities. The Company consolidated 21 VIEs at March 31, 2010. As a result of changes in control rights during the quarter ended June 30, 2010, two VIEs were deconsolidated and one additional VIE was consolidated during the quarter resulting in an increase in financial guaranty variable interest entities' assets of $51.0 million, an increase in financial guaranty variable interest entities' liabilities of $71.5 million and a net gain on deconsolidation/consolidation of $2.2 million, which was included in "financial guaranty variable interest entities' revenues" in the consolidated statement of operations. The Company is not primarily liable for the debt obligations issued by the VIEs 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. The Company's creditors do not have any rights with regard to the assets of the VIEs.

The table below shows the carrying value of the consolidated VIE assets and liabilities in the Company's unaudited interim consolidated financial statements, segregated by the types of assets held by VIEs that collateralize their respective debt obligations:

Consolidated VIEs

	As of June 30, 2010		As of December 31, 2009	
	Assets	Liabilities	Assets	Liabilities
		(in thousands)		
HELOCs	$ 436,454	$ 669,950	$	$
First liens	314,585	417,040		
Alt-A Second liens	98,552	152,071		
Automobile loans	589,431	589,431		
Life insurance	293,805	293,805		
Credit card loans	111,846	111,846	233,419	233,129
Health care receivables			211,808	212,484
Consumer loans			199,189	199,178
Gas pipeline tariffs			117,887	117,861
Total	$ 1,844,673	$ 2,234,143	$ 762,303	$ 762,652

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

8. Consolidation of VIEs (Continued)

The table below shows the revenues and expenses of the consolidated VIEs:

	Second Quarter 2010	Six Months 2010
	(in thousands)	
Revenues:		
Financial guaranty variable interest entities' revenues:		
Interest income	$ 54,412	$ 115,290
Net realized and unrealized gains (losses) on assets	(73,545)	(130,235)
Financial guaranty variable interest entities' revenues	$ (19,133)	$ (14,945)
Expenses:		
Financial guaranty variable interest entities' expenses:		
Interest expense	$ 20,657	$ 44,710
Net realized and unrealized (gains) losses on liabilities with recourse	(50,209)	(75,863)
Net realized and unrealized (gains) losses on liabilities without recourse	(8,686)	(14,440)
Other expenses	18,628	40,761
Financial guaranty variable interest entities' expenses	$ (19,610)	$ (4,832)

The financial reports of the consolidated 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 20 VIEs are consolidated on a one quarter lag.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

8. Consolidation of VIEs (Continued)

The new accounting guidance mandates the accounting changes prescribed by the statement to be recognized by the Company as a cumulative effect adjustment to retained earnings as of January 1, 2010. The cumulative effect of adopting the new accounting guidance was a $206.5 million after-tax decrease to the opening retained earnings balance due to the consolidation of 21 VIEs at fair value on January 1, 2010. The impact of adopting the new accounting guidance on the Company's balance sheet was as follows:

	As of December 31, 2009	Transition Adjustment	As of January 1, 2010
		(in thousands)	
Assets:			
Premiums receivable, net of ceding commissions payable	$ 1,418,232	$ (19,087)	$ 1,399,145
Deferred tax asset, net	1,158,205	111,213	1,269,418
Financial guaranty variable interest entities' assets	762,303	1,162,983	1,925,286
Total assets	16,802,693	1,255,109	18,057,802
Liabilities and shareholders' equity:			
Unearned premium reserves	8,400,152	(129,875)	8,270,277
Loss and loss adjustment expense reserve	289,470	16,999	306,469
Financial guaranty variable interest entities' liabilities with recourse	762,652	1,348,200	2,110,852
Financial guaranty variable interest entities' liabilities without recourse		225,976	225,976
Total liabilities	13,282,534	1,461,300	14,743,834
Retained earnings	789,869	(206,540)	583,329
Total shareholders' equity attributable to Assured Guaranty Ltd.	3,520,508	(206,540)	3,313,968
Noncontrolling interest of financial guaranty variable interest entities	(349)	349	
Total shareholders' equity	3,520,159	(206,191)	3,313,968
Total liabilities and shareholders' equity	16,802,693	1,255,109	18,057,802

At December 31, 2009, the Company consolidated four VIEs that had debt obligations insured by the Company. Under the new accounting guidance, consolidation was no longer required and, accordingly, the four VIEs were deconsolidated at fair value, which approximated $791.9 million in VIE assets and $788.7 million in VIE liabilities at the date of adoption. The impact of this deconsolidation is included in the above "Transition Adjustment" amounts.

Non-Consolidated VIEs

To date, the results of qualitative and quantitative analyses have indicated that the Company does not have a majority of the variability in any other VIEs and, as a result, are not consolidated in the Company's unaudited interim consolidated financial statements. The Company's exposure provided

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

8. Consolidation of VIEs (Continued)

through its financial guaranties with respect to debt obligations of non-consolidated SPEs is included within net par outstanding in Note 4.

9. Fair Value of Financial Instruments

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

Fair Value of Financial Instruments

	As of June 30, 2010		As of December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)			
Assets:				
Fixed maturity securities	$ 9,113,803	$ 9,113,803	$ 9,139,900	$ 9,139,900
Short-term investments	1,391,183	1,391,183	1,668,279	1,668,279
Assets acquired in refinancing transactions	138,306	148,890	152,411	160,143
Credit derivative assets	491,122	491,122	492,531	492,531
Committed capital securities, at fair value	20,855	20,855	9,537	9,537
Financial guaranty VIE assets	1,844,673	1,844,673		
Other assets	19,303	19,303	18,473	18,473
Liabilities:				
Financial guaranty insurance contracts(1)	5,361,987	6,096,897	5,971,803	7,020,474
Long-term debt	921,628	870,173	917,362	927,823
Note payable	137,632	141,717	149,051	148,477
Credit derivative liabilities	1,765,966	1,765,966	2,034,634	2,034,634
Financial guaranty VIE liabilities with recourse	2,049,253	2,049,253	762,652	762,652
Financial guaranty VIE liabilities without recourse	184,890	184,890		
Other liabilities	69	69	66	66

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

Background

Fair value framework defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. 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 the market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e. the most advantageous market).

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.

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9. Fair Value of Financial Instruments (Continued)

The fair value hierarchy prioritizes model inputs into three broad levels as follows, with level 1 being the highest and level 3 the lowest:

Level 1 Quoted prices for identical instruments in active markets.

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. This hierarchy requires the use of observable market data when available. 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.

An asset or liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (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
As of June 30, 2010

		Fair Value Hierarchy		
	Fair Value	Level 1	Level 2	Level 3
	(in millions)			
Assets:				
Investment portfolio, available-for-sale:				
Fixed maturity securities				
U.S. government and agencies	$ 1,029.4	$	$ 1,029.4	$
Obligations of state and political subdivisions	4,840.1		4,840.1	
Corporate securities	705.5		705.5	
Mortgage-backed securities:				
RMBS	1,335.0		1,232.1	102.9
CMBS	290.9		290.9	
Asset-backed securities	569.9		339.6	230.3
Foreign government securities	343.0		343.0	
Total fixed maturity securities	9,113.8		8,780.6	333.2
Short-term investments	1,391.2	835.6	555.6	
Assets acquired in refinancing transactions(1)	31.5		21.3	10.2
Credit derivative assets	491.1			491.1
Committed capital securities, at fair value	20.8		20.8	
Financial guaranty VIE assets	1,844.7			1,844.7
Other assets	19.3	16.7		2.6
Total assets	$ 12,912.4	$ 852.3	$ 9,378.3	$ 2,681.8
Liabilities:				
Credit derivative liabilities	$ 1,766.0	$	$	$ 1,766.0
Financial guaranty VIE liabilities with recourse	2,049.3			2,049.3
Financial guaranty VIE liabilities without recourse	184.9			184.9
Other liabilities	0.1		0.1	
Total liabilities	$ 4,000.3	$	$ 0.1	$ 4,000.2

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

Fair Value Hierarchy of Financial Instruments
As of December 31, 2009

	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	$ 1,037.6	$	$ 1,037.6	$
Obligations of state and political subdivisions	5,039.5		5,039.5	
Corporate securities	625.5		625.5	
Mortgage-backed securities:				
RMBS	1,464.6		1,464.6	
CMBS	227.2		227.2	
Asset-backed securities	388.9		185.0	203.9
Foreign government securities	356.6		356.6	
Total fixed maturity securities	9,139.9		8,936.0	203.9
Short-term investments	1,668.3	437.2	1,231.1	
Assets acquired in refinancing transactions(1)	32.4		21.3	11.1
Credit derivative assets	492.5			492.5
Committed capital securities, at fair value	9.5		9.5	
Other assets	18.5	18.3		0.2
Total assets	$ 11,361.1	$ 455.5	$ 10,197.9	$ 707.7
Liabilities:				
Credit derivative liabilities	$ 2,034.6	$	$	$ 2,034.6
Other liabilities	0.1		0.1	
Total liabilities	$ 2,034.7	$	$ 0.1	$ 2,034.6

(1) Includes mortgage loans that are fair valued on a non-recurring basis. At June 30, 2010 and December 31, 2009, such investments were carried at their market value of $10.2 million and $11.1 million, respectively. The mortgage loans are classified as Level 3 of the fair value hierarchy as there are significant unobservable inputs used in the valuation of such loans. An indicative dealer quote is used to price the non-performing portion of these mortgage loans. 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. This rate of return is based on indicative dealer quotes.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

Fixed Maturity Securities and Short-term Investments

The fair value of bonds in the Investment Portfolio is generally based on quoted market prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. Such quotes generally consider a variety of factors, including recent trades of the same and similar securities. If quoted market prices are not available, the valuation is based on pricing models that use dealer price quotations, price activity for traded securities with similar attributes and other relevant market factors as inputs, including security type, rating, vintage, tenor and its position in the capital structure of the issuer. The Company considers securities prices from pricing services, index providers or broker-dealers to be Level 2 in the fair value hierarchy. Prices determined based upon model processes are considered to be Level 3 in the fair value hierarchy. The Company used model processes to price 25 fixed maturity securities as of June 30, 2010 and these securities were classified as Level 3.

Broker-dealer quotations obtained to price securities are generally considered to be indicative and are nonactionable (i.e. non-binding).

The Company did not make any internal adjustments to prices provided by its third party pricing service.

Committed Capital Securities

The fair value of committed capital securities ("CCS") represents the difference between the present value of remaining expected put option premium payments under the AGC's CCS (the "AGC CCS Securities") and AGM Committed Preferred Trust Securities (the "AGM CPS Securities") agreements and the value of such estimated payments based upon the quoted price for such premium payments as of the reporting dates (see Note 16). Changes in fair value of the AGM CPS and AGC CCS securities are included in the consolidated statement of operations. The significant market inputs used are observable, therefore, the Company classified this fair value measurement as Level 2.

Financial Guaranty Credit Derivatives Accounted for as Derivatives

The Company's credit derivatives consist primarily of insured CDS contracts, and also include NIM securitizations and interest rate swaps. The Company does not typically exit its credit derivative contracts, and there are no quoted prices for its instruments or for similar instruments. 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. Therefore, the valuation of credit derivative contracts requires the use of models that contain significant, unobservable inputs. The Company accordingly believes the credit derivative valuations are in Level 3 in the fair value hierarchy.

The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining expected net premiums the Company receives or pays for the credit protection and the estimated present value of premiums that a comparable credit-worthy financial guarantor would hypothetically charge or pay the Company for the same protection at the balance sheet date. 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

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

credit ratings of referenced entities, the Company's own credit risk and remaining contractual cash flows.

Market conditions at June 30, 2010 were such that market prices of the Company's CDS contracts were not generally available. Since market prices were not available, the Company used proprietary valuation models that used both unobservable and observable market data inputs such as various market indices, credit spreads, the Company's own credit spread, and estimated contractual payments to estimate the fair value of its credit derivatives. These models are primarily developed internally based on market conventions for similar transactions.

Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts. These terms differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. 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 novations upon exiting a line of business. Because of these terms and conditions, the fair value of the Company's 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. 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.

Valuation models include management estimates and current market information. Management is also required to make assumptions on 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, 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 unaudited interim consolidated financial statements and the differences may be material.

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.

The key assumptions used in the Company's internally developed model include the following:

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 London Interbank Offered Rate ("LIBOR"). Such pricing is well established by historical financial guaranty fees relative to capital market spreads as observed and executed in competitive markets, including in financial guaranty reinsurance and secondary market transactions.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

How gross spread is allocated: Gross spread on a financial guaranty written in CDS form 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 on the Company by the originator to hedge their counterparty credit risk exposure to the Company ("hedge cost").

The expected remaining contractual cash flows, which are the most readily observable inputs since they are based on the CDS contractual terms. These cash flows include i) net premiums received and receivable on written credit derivative contracts, ii) net premiums paid and payable on purchased contracts, iii) losses paid and payable to credit derivative contract counterparties and iv) losses recovered and recoverable on purchased contracts.

The premium the Company receives is referred to as the "net spread." 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. 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.

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. To the extent available, actual transactions executed in the accounting period are used to validate the model results and to explain the correlation between various market indices and indicative CDS market prices.

The Company's fair value model inputs are gross spread, credit spreads on risks assumed and credit spreads on the Company's name.

Gross spread is an input into the Company's fair value model that is used to ultimately determine the net spread a comparable financial guarantor would charge the Company to transfer risk at the reporting date. The Company's estimate of the fair value adjustment represents the difference between the estimated present value of premiums that a comparable financial guarantor would accept to assume the risk from the Company on the current reporting date, on terms identical to the original contracts written by the Company and the contractual premium for each individual credit derivative contract. This is an observable input that the Company obtains for deals it has closed or bid on in the market place.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

The Company obtains credit 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 resembles the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. As discussed previously, 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 whom are not trustees. Management obtains this information as the result of direct communication with these sources as part of the valuation process.

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.

Example

The 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. 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.

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

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9. Fair Value of Financial Instruments (Continued)

its obligations under the CDS contract, thus resulting in an asset. This credit derivative asset is equal to the difference in premium rate discounted at the corresponding LIBOR over the weighted average remaining life of the contract. The expected future cash flows for the Company's credit derivatives were discounted at rates ranging from 0.35% to 3.7% at June 30, 2010. The expected future cash flows for the Company's credit derivatives were discounted at rates ranging from 0.25% to 4.5% at December 31, 2009.

The Company corroborates the assumptions in its fair value model, including the amount 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 for selling its protection.

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 contractual terms of financial guaranty insurance contracts 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 an asset representing the difference between the higher contractual premiums to which it is entitled and the current market premiums for a similar contract.

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.

The following spread hierarchy is utilized in determining which source of 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, they are used).

- Credit spreads are interpolated based upon market indices or deals priced or closed during a specific quarter within a specific asset class and specific rating.

- Credit spreads provided by the counterparty of the CDS.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

Credit spreads are extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.

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.

Information by Credit Spread Type

	As of June 30, 2010	As of December 31, 2009
Based on actual collateral specific spreads	5%	5%
Based on market indices	91%	90%
Provided by the CDS counterparty	4%	5%
Total	100%	100%

The Company interpolates a curve based on the historical relationship between the premium the Company receives when a financial guaranty contract written in CDS form 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 specific transactions where no price quotes are available and credit spreads need to be extrapolated, 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 is chosen. 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. In addition, management compares the relative change experienced on published market indices for a specific asset class for reasonableness and accuracy.

Strengths and Weaknesses of Model

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

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

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

The model takes account of 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.

The Company is able to use actual transactions, when available, to validate its model results and to explain the correlation between various market indices and indicative CDS market prices. Management first attempts to compare modeled values to premiums on deals the Company received on new deals written within the reporting period. If no new transactions were written for a particular asset type in the period or if the number of transactions is not reflective of a representative sample, management compares modeled results to premium bids offered by the Company to provide credit protection on new transactions within the reporting period, the premium the Company has received on historical transactions to provide credit protection in net tight and wide credit environments and/or the premium on transactions closed by other financial guaranty insurance companies during the reporting period.

The model is a documented, consistent approach to valuing positions that minimizes subjectivity. 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 verify the fair values developed by the Company's model.

At June 30, 2010 and December 31, 2009, the markets for the inputs to the model were highly illiquid, which impacts their reliability. However, the Company employs various procedures to corroborate the reasonableness of quotes received and calculated by the Company's internal valuation model, including comparing to other quotes received on similarly structured transactions, observed spreads on structured products with comparable underlying assets and, on a selective basis when possible, through second independent quotes on the same reference obligation.

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.

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9. Fair Value of Financial Instruments (Continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of June 30, 2010 and December 31, 2009 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.

Fair Value Option on Financial Guaranty VIE Assets and Liabilities

The Company elected the Fair Value Option for financial guaranty VIE assets and liabilities upon adopting the new accounting guidance on accounting for VIEs (see Note 8).

The 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, we classified all such securities as Level 3 in the fair value hierarchy. The securities were priced with the assistance of an independent third-party using a discounted cash flow approach and the third-party's proprietary pricing models. The models to price the VIEs liabilities used, where appropriate, inputs such as estimated prepayment speeds; losses; recoveries; 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 VIE tranches insured by the Company, taking into account the Company's own credit rating. Those VIE liabilities insured by the Company are considered to be with recourse, since the Company guarantees the payment of principal and interest regardless of the performance of the related VIE assets. Those VIE liabilities not insured by the Company are considered to be non-recourse, since the payment of principal and interest of these liabilities is wholly dependent on the performance of the VIE assets.

The VIE is not primarily liable for the debt obligations issued by the VIEs and AGL's insurance company subsidiaries that insure the debt 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. The Company's creditors do not have any rights with regard to the assets of the VIEs.

The Company determined the fair value of the VIE assets using a similar methodology as described above with the exception that there was no benefit assigned to the value of the Company's financial guarantee since the Company does not guarantee the performance of the underlying assets of the VIE.

Changes in fair value of the financial guaranty VIE assets and liabilities are included in the consolidated statement of operations. Interest income on VIE assets is recognized when received and recorded in "variable interest entities' revenues" in the consolidated statements of operations. Except for credit impairment, the unrealized fair value adjustments related to the consolidated VIEs will reverse to zero over the terms of these financial instruments.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

The total unpaid principal balance for the VIE assets that were over 90 days or more past due was approximately $254.6 million. The change in the instrument-specific credit risk of the VIE assets for the Second Quarter 2010 and Six Months 2010 was a loss of approximately $44.1 million and $95.4 million, respectively. The difference between the aggregate unpaid principal and aggregate fair value of the VIE liabilities was approximately $668.3 million at June 30, 2010.

Level 3 Instruments

The table below presents a rollforward of the Company's financial instruments whose fair value included significant unobservable inputs (Level 3) during the Second Quarter and Six Months 2010 and 2009. There were no significant transfers between Level 1 and Level 2 financial assets during the period.

Fair Value Level 3 Rollforward

	Second Quarter 2010							
	Fair Value at March 31, 2010	Total Pre-tax Realized/ Unrealized Gains/ (Losses)(1) Recorded in: Net Income (Loss)	Other Comprehensive Income (Loss)	Purchases, Issuances, Settlements, net	Consolidations, Deconsolidations, net	Transfers in and/or out of Level 3	Fair Value at June 30, 2010	Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at June 30, 2010
	(in thousands)							
Investment portfolio	$ 301,984	$ (9,421)(2)	$ (32,907)	$ 64,839	$	$ 8,674	$ 333,169	$ (32,907)
Assets acquired in refinancing transactions	16						16	16
Financial guaranty VIE assets	1,868,596	(19,133)(3)		(53,612)	48,822		1,844,673	36,134
Other assets	4,414	8(4)	(281)	(1,523)			2,618	8
Credit derivative asset (liability), net(5)	(1,284,911)	73,468(6)		(63,401)			(1,274,844)	36,725
Financial guaranty VIE liabilities with recourse	(2,067,215)	21,950(3)		67,541	(71,529)		(2,049,253)	(130,976)
Financial guaranty VIE liabilities without recourse	(205,724)	(2,340)(3)		23,174			(184,890)	5,321

	Second Quarter 2009						
	Fair Value at March 31, 2009	Total Pre-tax Realized/ Unrealized Gains/ (Losses)(1) Recorded in: Net Income (Loss)	Other Comprehensive Income (Loss)	Purchases, Issuances, Settlements, net	Transfers in and/or out of Level 3	Fair Value at June 30, 2009	Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at June 30, 2009
	(in thousands)						

Credit derivative asset (liability), net(5)	$ (556,970)	$ (226,468)(6)	$	$ (27,964)	$	$ (811,402)	$ (282,727)

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

Fair Value Level 3 Rollforward

	Six Months 2010									
	Fair Value at December 31, 2009	Adoption of New Accounting Guidance	Fair Value at January 1, 2010	Total Pre-tax Realized/ Unrealized Gains/ (Losses)(1) Recorded in: Net Income (Loss)	Total Pre-tax Realized/ Unrealized Gains/ (Losses)(1) Recorded in: Other Comprehensive Income (Loss)	Purchases, Issuances, Settlements, net	Consolidations, Deconsolidations, net	Transfers in and/or out of Level 3	Fair Value at June 30, 2010	Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at June 30, 2010
	(in thousands)									
Investment portfolio	$ 203,914	$	$ 203,914	$ (9,581)(2)	$ (50,522)	$ 106,791	$	$ 82,567	$ 333,169	$ (50,522)
Assets acquired in refinancing transactions	16		16						16	
Financial guaranty VIE assets		1,925,286	1,925,286	(14,945)(3)		(114,490)	48,822		1,844,673	96,482
Other assets	167		167	14(4)	(209)	2,646			2,618	14
Credit derivative asset (liability), net(5)	(1,542,103)		(1,542,103)	352,269(6)		(85,010)			(1,274,844)	294,573
Financial guaranty VIE liabilities with recourse		(2,110,852)	(2,110,852)	12,325(3)		120,803	(71,529)		(2,049,253)	(185,756)
Financial guaranty VIE liabilities without recourse		(225,976)	(225,976)	(7,493)(3)		48,579			(184,890)	1,942

	Six Months 2009						
	Fair Value at December 31, 2008	Total Pre-tax Realized/ Unrealized Gains/ (Losses)(1) Recorded in: Net Income (Loss)	Total Pre-tax Realized/ Unrealized Gains/ (Losses)(1) Recorded in: Other Comprehensive Income (Loss)	Purchases, Issuances, Settlements, net	Transfers in and/or out of Level 3	Fair Value at June 30, 2009	Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at June 30, 2009
	(in thousands)						
Credit derivative asset (liability), net(5)	$ (586,807)	$ (178,907)(6)	$	$ (45,688)	$	$ (811,402)	$ (255,545)

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(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 financial guaranty variable interest entities revenues or expenses.

(4) Recorded in other income.

(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.

Unearned Premium Reserves

The fair value of the Company's unearned premium reserves 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 in recent portfolio transfers that have occurred in the financial guaranty market and included adjustments to the carrying value of unearned premium reserves for stressed losses and ceding commissions. The significant inputs for stressed losses and ceding commissions were not readily observable inputs. The Company accordingly classified this fair value measurement as Level 3.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

9. Fair Value of Financial Instruments (Continued)

Long-Term Debt and Notes Payable

The Company's long-term debt is valued by broker-dealers using third party independent pricing sources and standard market conventions. The market conventions utilize market quotations, market transactions in comparable instruments, and various relationships between instruments, such as yield to maturity.

The fair value of the notes payable was determined by calculating the present value of the expected cash flows.

10. Investment Portfolio

Investment Portfolio

The following tables summarize the Company's aggregate investment portfolio:

Investment Portfolio by Security Type

	As of June 30, 2010						
Investments Category	**Percent of Total(1)**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**AOCI on Securities with OTTI(2)**	**Weighted Average Credit Quality**
			(dollars in thousands)				
Fixed maturity securities:							
U.S. government and agencies	10%	$ 975,225	$ 54,206	$ (13)	$ 1,029,418	$	AAA
Obligations of state and political subdivisions	45	4,654,363	189,685	(3,982)	4,840,066	12	AA
Corporate securities	7	683,422	24,576	(2,468)	705,530	89	AA-
Mortgage-backed securities(3):							
RMBS	13	1,352,509	55,084	(72,610)	1,334,983	(3,245)	AA
CMBS	3	279,242	11,681	(60)	290,863	2,173	AAA
Asset-backed securities	5	563,101	7,531	(718)	569,914		BBB-
Foreign government securities	3	353,821	5,330	(16,122)	343,029		AA+
Total fixed maturity securities	86	8,861,683	348,093	(95,973)	9,113,803	(971)	AA
Short-term investments	14	1,390,663	520		1,391,183		AAA
Total investment portfolio	100%	$ 10,252,346	$ 348,613	$ (95,973)	$ 10,504,986	$ (971)	AA

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

10. Investment Portfolio (Continued)

	As of December 31, 2009						
Investments Category	**Percent of Total(1)**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**AOCI on Securities with OTTI(2)**	**Weighted Average Credit Quality**
	(dollars in thousands)						
Fixed maturity securities:							
U.S. government and agencies	9%	$ 1,014,254	$ 26,048	$ (2,755)	$ 1,037,547	$	AAA
Obligations of state and political subdivisions	46	4,881,542	164,700	(6,772)	5,039,470		AA
Corporate securities	6	617,117	12,854	(4,362)	625,609		AA-
Mortgage-backed securities(3):							
RMBS	14	1,449,443	39,489	(24,328)	1,464,604	9,804	AA+
CMBS	2	229,841	3,431	(6,101)	227,171	2,418	AA+
Asset-backed securities	4	395,255	1,495	(7,869)	388,881		BIG
Foreign government securities	3	356,457	3,570	(3,409)	356,618		AA+
Total fixed maturity securities	84	8,943,909	251,587	(55,596)	9,139,900	12,222	AA
Short-term investments	16	1,668,185	649	(555)	1,668,279		AAA
Total investment portfolio	100%	$ 10,612,094	$ 252,236	$ (56,151)	$ 10,808,179	$ 12,222	AA

(1) Based on amortized cost.

(2) Accumulated OCI ("AOCI").

(3) As of June 30, 2010 and December 31, 2009, respectively, approximately 71% and 80% of the Company's total mortgage backed securities were government agency obligations.

Ratings in the table above represent the lower of the Moody's and S&P classifications. The Company's portfolio is comprised primarily of high-quality, liquid instruments. The Company continues to receive sufficient information to value its investments and has not had to modify its valuation approach due to the current market conditions.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities by contractual maturity as of June 30, 2010 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

10. Investment Portfolio (Continued)

Distribution of Fixed-Maturity Securities in the Investment Portfolio by Contractual Maturity

	As of June 30, 2010	
	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due within one year	$ 59,691	$ 60,580
Due after one year through five years	1,925,936	1,956,867
Due after five years through ten years	1,741,790	1,813,976
Due after ten years	3,502,515	3,656,534
Mortgage-backed securities:		
RMBS	1,352,509	1,334,983
CMBS	279,242	290,863
Total	$ 8,861,683	$ 9,113,803

Proceeds from the sale of available-for-sale fixed maturity securities were $780.8 million and $705.0 million for the Six Months 2010 and 2009, respectively.

Net Investment Income

	Second Quarter		Six Months	
	2010	2009	2010	2009
	(in thousands)			
Income from fixed maturity securities	$ 92,639	$ 43,827	$ 179,779	$ 87,306
Income from short-term investments	(61)	437	(429)	1,512
Gross investment income	92,578	44,264	179,350	88,818
Investment expenses	(1,707)	(964)	(4,177)	(1,917)
Net investment income(1)	$ 90,871	$ 43,300	$ 175,173	$ 86,901

(1) Second Quarter 2010 and Six Months 2010 amounts include $7.7 million and $25.3 million, respectively, of amortization of premium, which is mainly comprised of amortization of premium on the acquired AGMH investment portfolio.

Under agreements with its cedants and in accordance with statutory requirements, the Company maintains fixed maturity securities in trust accounts of $351.3 million and $345.7 million as of June 30, 2010 and December 31, 2009, respectively, for the benefit of reinsured companies and for the protection of policyholders, generally in states in which the Company or its subsidiaries, as applicable, are not licensed or accredited.

Under certain derivative contracts, the Company is required to post eligible securities as collateral, generally cash or U.S. government or agency securities. The need to post collateral under these transactions is generally based on mark-to-market valuations in excess of contractual thresholds. The

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

10. Investment Portfolio (Continued)

fair market value of the Company's pledged securities totaled $637.7 million and $649.6 million as of June 30, 2010 and December 31, 2009 respectively.

The Company is not exposed to significant concentrations of credit risk within its investment portfolio.

No material investments of the Company were non-income producing for the Second Quarter and Six Months 2010 and 2009, respectively.

Other-Than Temporary Impairment

The following table presents the roll-forward of the credit losses of fixed maturity securities for which the Company has recognized OTTI and where the portion of the fair value adjustment related to other factors was recognized in OCI.

Rollfoward of Credit Losses in the Investment Portfolio

	Second Quarter		Six Months	
	2010	2009	2010	2009
	(in thousands)			
Balance, beginning of period	$ 20,034	$ 582	$ 19,948	$ 582
Additions for credit losses on securities for which an OTTI was previously recognized		14,833	86	14,833
Balance, end of period	$ 20,034	$ 15,415	$ 20,034	$ 15,415

Effective April 1, 2009, GAAP required bifurcation of credit and non-credit related OTTI in realized loss and OCI, respectively. Prior to April 1, 2009, the entire unrealized loss on OTTI securities was recognized in the consolidated statements of operations. Subsequent to that date, only the credit component of the unrealized loss on OTTI securities was recognized in the consolidated statements of operations.

As of June 30, 2010, amounts, net of tax, in accumulated OCI included a net unrealized loss of $1.1 million for securities for which the Company had recognized OTTI and a net unrealized gain of $196.4 million for securities for which the Company had not recognized OTTI. As of December 31, 2009, amounts, net of tax, in accumulated OCI included an unrealized loss of $11.4 million for securities for which the Company had recognized OTTI and an unrealized gain of $160.6 million for securities for which the Company had not recognized OTTI.

The following tables summarize, for all securities in an unrealized loss position as of June 30, 2010 and December 31, 2009 and, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2010

10. Investment Portfolio (Continued)

Gross Unrealized Loss by Length of Time

	As of June 30, 2010					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(dollars in millions)					
U.S. government and agencies	$ 15.0	$ (0.0)	$	$	$ 15.0	$ (0.0)
Obligations of state and political subdivisions	353.5	(2.6)	40.3	(1.4)	393.8	(4.0)
Corporate securities	83.2	(2.3)	4.2	(0.1)	87.4	(2.4)
Mortgage-backed securities:						
RMBS	161.3	(71.5)	13.5	(1.1)	174.8	(72.6)
CMBS	8.5	(0.1)			8.5	(0.1)
Asset-backed securities	63.5	(0.1)	15.2	(0.7)	78.7	(0.8)
Foreign government securities	249.7	(16.1)			249.7	(16.1)
Total	$ 934.7	$ (92.7)	$ 73.2	$ (3.3)	$ 1,007.9	$ (96.0)
Number of securities		150		14		164
Number of securities with OTTI		5		2		7

	As of December 31, 2009					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(dollars in millions)					
U.S. government and agencies	$ 292.5	$ (2.7)	$	$	$ 292.5	$ (2.7)
Obligations of state and political subdivisions	407.4	(4.1)	56.9	(2.7)	464.3	(6.8)
Corporate securities	287.0	(3.9)	8.2	(0.5)	295.2	(4.4)
Mortgage-backed securities:						
RMBS	361.4	(21.6)	20.5	(2.7)	381.9	(24.3)
CMBS	49.5	(2.4)	56.4	(3.7)	105.9	(6.1)
Asset-backed securities	126.1	(7.8)	2.0	(0.1)	128.1	(7.9)
Foreign government securities	270.4	(3.4)			270.4	(3.4)
Total	$ 1,794.3	$ (45.9)	$ 144.0	$ (9.7)	$ 1,938.3	$ (55.6)
Number of securities		259		33		292

Number of securities with OTTI	13	2	15

Of the securities in an unrealized loss position for 12 months or more as of June 30, 2010, one security had an unrealized loss greater than 10% of book value. The total unrealized loss for this security as of June 30, 2010 was $0.7 million.