

**Assured Guaranty Ltd. (AGO)**  
**August 4, 2016**  
**Second Quarter 2016 Earnings Call**

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Thank you operator. And thank you all for joining Assured Guaranty for our 2016 second quarter financial results conference call.

Today's presentation is made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

The presentation may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results or other items that may affect our future results.

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

If you are listening to the replay of this call, or if you are reading a transcript of the call, please note that our statements made today may have been updated since this call.

Please refer to the Investor Information section of our website for our recent presentations, SEC filings, most current financial filings, and for the risk factors.

This presentation also includes references to non-GAAP financial measures. We present the GAAP financial measures most directly comparable to the non-GAAP financial measures referenced in this presentation, as well as a reconciliation between such GAAP and non-GAAP financial measures, in our current financial supplement and equity investor presentation which are on our website at [AssuredGuaranty.com](http://AssuredGuaranty.com).

In turning to the presentation, our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Ltd., and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to your questions. As the webcast is not enabled for Q&A, please dial in to the call if you would like to ask a question.

I will now turn the call over to Dominic.

**Dominic Frederico, President and Chief Executive Officer**

Thank you, Robert, and welcome to everyone joining today's call.

Assured Guaranty's performance continued to be strong in the second quarter of 2016. Rob will give you details about the financial results later on this call. I am going to focus my remarks on our new business production and some significant events that have occurred since our last earnings call, including our acquisition of CIFG, developments related to Puerto Rico, and an enhanced initiative to build the company's value through alternative investments.

In the municipal new-issue bond market in the second quarter of 2016, insured penetration was 6% of the total par volume. In looking at one of our principal target markets, transactions with single-A underlying ratings, nearly a quarter of that par and 57% of the transactions came to market with insurance. This level of penetration was remarkable considering we saw the lowest interest rate environment in the history of the bond insurance industry.

Before the second quarter began, we had never seen AAA 30-year muni rates below 2.47%, but during the quarter, rates descended well below that level, even before the global flight to quality caused by global events including the Brexit vote on June 23rd. By June 30th, rates were down to 2.02%. The next day they pierced the 2% level, and there is little evidence rates will approach historically normal levels this year, as some central banks continue to hold their rates near zero.

In this kind of environment, all bond insurers see their pricing power constrained. At Assured Guaranty, we know it is imperative to remain disciplined not only in our credit selection but also in our pricing, because poor pricing can lock in low returns for years to come. During the second quarter, we continued to focus on transactions that not only meet our underwriting standards, but also produce appropriate returns. Investors, as well as municipal issuers and their advisors, have a stake in the long-term viability of the insurer they use, and that means they understand it is necessary for their insurer to run a profitable business in order to remain financially strong. Rating agencies consider profitability a factor in determining ratings, and knowledgeable fixed income investors also know how important this is.

At about this time last year, we looked at the current pricing in the market and made a decision to more appropriately price our guaranty by raising our prices. That has clearly cost us some market share, but by comparing U.S. municipal transactions closed in the second quarters of 2016 and 2015, you can see that we generated 32% more present value premiums, or PVP, even though we guaranteed 22% less par. First half over first half, PVP was up 68% while par insured was down 11%, and our S&P risk-adjusted pricing was significantly higher this year. Last week, S&P wrote that our municipal risk-adjusted pricing, or "RAP," ratio was above S&P's 4% target in both the fourth quarter of 2015 and the first quarter of 2016. Importantly, only Assured Guaranty surpassed that target according to S&P's July 27th reports on all three active guarantors.

And while we focused on appropriately pricing the new business we wrote, we still continued to lead the industry in the primary municipal bond market, insuring 267 small, medium and large new issues, which represented 53% of the insured par sold in the second quarter.

In the municipal secondary market during the quarter, our \$393 million of par insured was 52% higher than in the second quarter of 2015. For the first half, our secondary market volume is running 87% ahead of last year's pace, and our secondary market PVP is more than three times what it was in the first half of last year.

Most notably, on June 1st, we provided primary-market insurance for 17% of the \$2.4 billion of bonds issued to finance the redevelopment of the LaGuardia Airport Central Terminal B. In addition to that \$412 million of insured bonds, by the end of July, we had written secondary market bond insurance policies on another \$80 million of this landmark domestic infrastructure financing. The demand for our guaranty on this transaction demonstrates the value we provide in larger financings and reflects the significant demand for our product among institutional investors.

A unique advantage we have over other guarantors is that we continue to provide credit enhancement for issuers in the U.S. public finance, U.S. and international structured finance, and international infrastructure finance markets, which is also something S&P identified as a competitive strength in its recent report on us. With experienced underwriters pursuing appropriate transactions in international infrastructure and global structured finance, we do not depend solely on one market to generate insurance premiums, and we are able to further diversify our insured risk profile.

In international infrastructure business in the second quarter, we provided a European institutional investor with secondary-market guarantees on five bond issues by four different regulated UK utility companies, and we made progress on other transactions with the potential to close this year.

Although some activity was delayed in the run-up to and aftermath of the Brexit vote, these transactions are generally on track. The need to finance infrastructure improvements will not go away, and there is continued demand for the replacement of other legacy insurers on non-U.S. transactions.

In addition to producing new financial guaranty business, we build the value of the company through alternative strategies, one of which is acquisitions. On July 1st, we acquired the legacy bond insurer CIFG, which we merged into our Assured Guaranty Corp. subsidiary. Like our previous acquisitions of Radian Asset Assurance and FSA, this acquisition strengthens our franchise by adding a solid book of financial guaranty business and increasing shareholders' equity and statutory capital. At the same time, CIFG-insured bondholders now enjoy greater security and enhanced market liquidity for their insured bonds. The impact of the CIFG acquisition will not be reflected in our financial statements until our third quarter reporting, but Rob will give you additional financial details.

A bonus of buying CIFG is that we have been able to bring on board a few key members of its team. In particular, CIFG's former President and CEO David Buzen will lead a new Alternative Investments department to coordinate our search for new ways to deploy some of our excess capital, including further acquisitions and other opportunities that will benefit from our core competencies in credit, insurance and financial markets.

We plan to continue other aspects of our capital management program, including share repurchases, in parallel with the activities of this new department. Of course, we will take no action that could impair our ability to maintain or improve our ratings or trading value of our insured bonds, nor will we interfere with our capital management strategy – specifically, our share buybacks.

With regard to Puerto Rico, we have had a few eventful months since our last call. A bipartisan bill was enacted by Congress to address Puerto Rico's claim that it needed access to restructuring legislation in order to reach sustainable settlements with creditors. We worked tirelessly to educate legislators about the dangers of establishing a precedent of retroactive impairment of creditors, and the bill the President signed into law on June 30 requires that any restructuring of Commonwealth bonds respect the priorities and liens provided for under Puerto Rico law; preempts Puerto Rico's Moratorium law; provides a framework for consensual restructuring of individual bond issues; and provides some sorely needed supervision for the Commonwealth's government through a financial oversight board with real authority. The PROMESA bill enacted into law is an improvement over some of the earlier drafts, but it does

leave room for a potential judicial cramdown, stays creditor legal actions and, critically, does not provide any economic assistance to the island.

Senator Orrin Hatch is leading a task force of the House and Senate members who have been appointed to look into how the Federal government can assist in, or at least remove Federal obstacles to, Puerto Rico's economic recovery. It's too early to tell whether that will lead to helpful legislation.

The PROMESA oversight board, whose members have not yet been appointed, will soon have the authority to approve budgets and restructuring agreements and will have the sole authority to invoke the bankruptcy-like provisions of the Act. It is therefore essential that its members have a deep respect for the rule of law, a solid understanding of economics and public finance, and the ability and willingness to take into account how their actions could affect the cost of public borrowings nationwide.

Characteristically, the current Puerto Rican administration wasted no time in abusing the Act's stay on creditor legal actions, and the absence of the Control Board, to violate PROMESA, as well as its own constitution and laws, and the U.S. constitution and bankruptcy code. The Governor issued unlawful Executive Orders, which PROMESA explicitly preempts, that caused defaults on \$911 million of July 1 debt service payments, including \$779 million of constitutionally protected general obligation bonds. The suspension of debt service payments pointedly disregards the existing lawful priorities and liens that PROMESA specifically states must be respected.

Assured Guaranty paid net claims of \$184 million to cover shortfalls on Puerto Rico's July 1st debt service, almost all for general obligation bonds that Puerto Rico's constitution says must be paid not only before all other debt payments but before all other expenses of any kind. We spent the last week of June trying to get information from Puerto Rico about potential claim payments for July 1, so preparations for claim payment transfers could be made, but were given no information before the claims were received. Nevertheless, within a day of receipt of each claim, funds were transferred to the appropriate trustee, paying agent or secondary-market custodian. No Assured Guaranty insured bondholder had to take any action to receive timely payment of their scheduled principal or interest.

Also, on the day PROMESA was enacted into law, Governor Padilla extended the state of emergency he had declared in May that diverted pledged toll revenues of the Puerto Rico Highways and Transportation Authority to purposes other than the payment of the HTA bonds, purportedly using the diverted toll revenues to fund expenses of its own operations that are subordinated to the HTA bonds and to pay for quote so-called "essential services" on behalf of the Commonwealth. Remarkably, these "essential services" are defined to include payments to the financially distressed Government Development Bank for Puerto Rico, an affiliated, subordinated, inside creditor of HTA. This is another violation of PROMESA, which prohibits transfers of funds outside the ordinary course of business or that are inconsistent with Puerto Rico law. In total, including both the clawback of pledged taxes and the diversion of toll revenues, the Commonwealth had unlawfully misdirected by June 30th approximately \$326 million in revenues pledged to the payment of HTA's revenue bonds.

On July 21st, we filed a motion and form of complaint in the Federal District Court in Puerto Rico seeking relief from the PROMESA stay and, upon such relief, seeking a declaration that Puerto Rico's Moratorium law is preempted by Federal bankruptcy law and that the Executive Orders diverting the pledged toll revenues are preempted by PROMESA and violate the U.S.

Constitution. Additionally, it seeks damages for the value of toll revenues diverted and injunctive relief prohibiting the defendants from taking any further action under the Executive Orders.

In a few months, we will presumably have a functioning oversight board. Whether the current government will be willing and able to provide reliable, audited financial information so the board can do the job remains to be seen. Once that information is available and all parties can reliably analyze the financial condition of the various obligors, the chances for successful consensual settlements will improve.

On a positive note, I can say that the securitization transition charges and provisional PREPA rate increases required to move the PREPA Restructuring Support Agreement forward were authorized and the parties continue to work toward obtaining investment grade ratings for the securitization bonds and implementing the restructuring transaction contemplated by the PREPA agreement.

Finally, I want to call your attention to two recent rating agency reports that reflect our commitment to maintaining exceptional financial strength. On July 8th, Kroll Bond Rating Agency affirmed its AA+ financial strength rating, with a stable outlook, for our MAC subsidiary, taking into account MAC's full repayment of the surplus notes it issued to partially fund its initial capitalization, and the resulting transfer of \$400 million plus accrued interest to AGM and AGC. In the two-and-three-quarters years from July of 2013 to March 2016, MAC produced over \$227 million of statutory net income, making it unnecessary to leave the surplus notes outstanding. The level of stress losses that MAC was able to satisfy under the Kroll's Monte Carlo simulation model was equivalent to a AAA stress scenario. Keep in mind that AA+ is the highest rating Kroll has said it is likely to assign to a financial guarantor in the current environment. Kroll affirmed the same AA+ stable rating for AGM last December.

And most recently, on July 27th, S&P released the report I mentioned earlier, in which it affirmed its AA stable financial strength ratings on all of our insurance and reinsurance subsidiaries, citing, among other things:

- Very strong capital adequacy
- Our strong competitive position, built on market leadership and a well-diversified underwriting strategy
- Our leadership position in the U.S. public finance market in terms of both par insured and premiums written
- Our high quality, liquid investment portfolio and conservative investment strategy
- Experienced management with a well-defined strategy and a track record of success
- And our strong operating performance and enterprise risk management

In determining the AA Stable ratings, one of S&P's scenario analyses assumed every one of our Puerto Rico obligations would default, and that we would pay claims totaling 100% of that debt service over the next four years. They also looked at other scenarios to see whether our capital adequacy score would change if our claim payments totaled 15, 25, 35 or 45 percent of our total Puerto Rican debt service over the entire lives of the transactions. The result, in all scenarios, was that these losses would not change our S&P capital adequacy score.

Importantly, S&P noted favorably our greater flexibility than other guarantors to capitalize on growth trends and pricing opportunities because we write guarantees in a broader range of U.S. public finance sectors and have additional revenue sources provided by our global infrastructure and structured finance businesses.

I will now turn the call over to Rob.

**Robert Bailenson - Chief Financial Officer**

Thank you, Dominic, and good morning to everyone on the call.

In the second quarter of 2016, operating income was \$139 million, compared with \$278 million in the second quarter of 2015. Second quarter 2015 operating income was higher than 2016 primarily due to the gains recognized upon the acquisition of Radian Asset.

Financial guaranty insurance and credit derivative revenues were \$248 million in the second quarter of 2016, compared with \$259 million in the second quarter of 2015. This included accelerations of \$136 million in the second quarter of 2016, compared with \$98 million in the second quarter of 2015.

Economic loss development in the second quarter of 2016 was \$22 million, which reflects \$109 million of loss development in the public finance sector, and a benefit of \$87 million in the structured finance sector.

Economic loss development in the public finance sector was driven by increases in expected losses on various Puerto Rico credits. As Dominic mentioned, we made claim payments on general obligation and Public Building Authority exposures, which are reflected in the June 30th probability weighted loss estimates.

In the structured finance sector, RMBS was the primary source of the economic benefit, and included the positive effect of accelerating claim payments as a means of mitigating losses on a number of Alt-A transactions.

The effect of declining discount rates embedded in loss development in the second quarter of 2016 was an aggregate loss of \$45 million, comprised of \$29 million in the public finance sector, and \$16 million in the structured finance sector.

Shareholder dividends, repurchases, debt service and operating expenses of the holding companies are supported by the dividend capacity of our insurance subsidiaries. We now have approximately \$21 million in cash and investments at the Bermuda holding company and approximately \$103 million at the US holding companies.

In the second quarter of 2016, share repurchases totaled \$60 million, or 2.3 million shares, with an average purchase price of \$25.73 per share. As of today, \$150 million remains available to repurchase shares under our current authorization.

Operating shareholders' equity per share at June 30, 2016 was \$45.26. This is 17 percent higher than it would have been without the cumulative share repurchases since 2013.

Adjusted book value per share reached \$61.86, which is 24 percent higher than it would have been without these repurchases.

As Dominic mentioned, we acquired CIFG on July 1st and we are in the process of allocating the purchase price to the fair value of acquired assets and liabilities. As of June 30th, 2016, CIFG had approximately \$640 million of statutory capital and an insured portfolio of about \$4.4

billion in net par, which is \$900 million lower than previously reported due to the termination of various CDS transactions.

The acquisition will be accretive to Assured Guaranty's earnings per share, operating shareholders' equity and adjusted book value. We now expect that CIFG will increase AGC's statutory capital by \$325 to \$350 million by the end of 2016.

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

**Question and Answer Session (to come)**