



**Transcript of Assured Guaranty Ltd.  
Earnings Conference Call**  
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**Managing Director of Investor Relations and Corporate Communications**

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

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

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

In turning to the presentation, our speakers today are: Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Limited, and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to 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 thank you all for joining Assured Guaranty for our second quarter 2012 earnings call.

Our positive operating results in the second quarter reflect our strategic versatility and the strength of Assured Guaranty's business model. While the reliable stream of revenue from our \$5.6 billion unearned premium reserve laid a solid base for income, we wrote new business generating \$50 million of PVP and created additional shareholder value through our alternative strategic programs.

Our business production in the second quarter concentrated on U.S. public finance, where our gross par written totaled \$4.7 billion, up 28% from second quarter 2011, and PVP reached \$47 million, up 5% from last year's second quarter. Our premium rates have held firm over the last year, but compared with last year's second quarter PVP, PVP grew less than par insured. This is because our premium rates are applied to the total insured debt service – that is, principal and interest – to calculate PVP. As average 30-year yields have decreased about 125 basis points from where they were in last year's second quarter, total debt service is reduced, and this is the basis of premium we record in the quarter. The fact that we insured over 350 new issues in the quarter despite adverse market conditions is testimony to the fundamental demand for our guaranty.

Our market penetration remained consistent with prior quarters. In our target market, bonds with Single-A underlying credit quality, our market penetration in the second quarter remained reasonably strong as we insured 29% of the transactions and 10% of the par sold, despite the low interest rate environment.

Turning briefly to the structured finance and international markets, our near term structured finance opportunities are primarily in non-cash bilateral trades with large financial institutions looking to manage their capital more efficiently. In international business, we've seen a steady increase of European public finance transaction inquiries as banks continue to reduce their from long-term infrastructure lending. We continue to look forward to increased opportunities in both of these areas over the next twelve months.

As most of you know, Moody's placed our ratings on review for possible downgrade at the end of March. I want to emphasize in U.S. municipals we still insured 445 primary and secondary market transactions totaling \$4.7 billion of par, even with the uncertainty caused by Moody's actions, proving once again the value and resiliency of our product. We believe that by far, the most important reason for any downward pressure on insured market penetration is the unprecedented low interest rate environment.

As we've pointed out before, we believe Moody's negative view of the future of bond insurance is not supported by the facts. Counter to Moody's statement, there is a number of indications that the prospects for increased demand are strengthening.

In our view, the recent entrance of a new player into the bond insurance business underscores the importance of the product and the expected growth in demand for it, as well as the opportunity that fresh capital sees in participating in this market. Even Moody's has said the presence of a new guarantor "could help revitalize the financial guaranty insurance sector...through greater insurance penetration." And S&P recently wrote that "the industry could end up insuring 20% to 30% of new issue par in the U.S. public finance market." We agree with this view over the longer term, although we believe the current interest rate environment will still depress the insured market in the short term.

We've also seen more headlines about municipal defaults, especially in California, even as the actual level of municipal defaults nationwide remains low. Municipal governments have generally recognized, and are taking steps to address, the mismatch of revenues and expenditures caused by the fiscal aftershocks of the recession and the financial burdens that some are experiencing due to unaffordable compensation, pension and other liabilities. We have also seen that voters do not want their cities to default. This is clear from the referenda in San Jose and San Diego where voters approved pension reform measures, and the voter-approved tax increases in Hercules, California. On the other hand, high-profile defaults and Chapter 9 bankruptcy filings should heighten investors' perceptions of risk and cause investors to once again consider the benefits of bond insurance.

Most individual investors are generally in no position to analyze and monitor individual municipal credits. This makes our credit selection, underwriting, surveillance and ability to assure uninterrupted payments when something does go wrong especially valuable. The benefits Assured Guaranty brings to the table are a compelling reason to buy the bonds we insure, and we think investors' recognition of this will also drive increasing demand for our product.

Claims we paid in Harrisburg and Jefferson County provide good examples of the value of our insurance. We are bringing the same protection to holders of bonds we've insured for Stockton, California, whose City Council filed a chapter 9 bankruptcy petition. We've posted two statements on our website about Stockton, and I encourage you to read them.

There have been just 43 municipal bankruptcy filings since 1981, and none in which the principal owed to bondholders was cut. Stockton's attempt to transfer the cost of fundamental mismanagement principally to the capital markets creditors is a contortion of the bankruptcy process. Further, discriminating against bondholders will not solve the city's problem because debt service is only 8% of general fund expenditures while

personnel costs comprise 68% of the City's projected expenses. In short, we are not the problem and therefore cannot be the solution.

The cost of bankruptcy and its long term negative effects on Stockton, as well as for California at both the local and state level we believe, have not been fully considered. California has made the point of asserting in the past that it is a very strong credit. However, a state is made up of cities, towns and other local government units. It's time for the state to act from its position of leadership to ensure the fiscal responsibility of California governments at all levels, so that it can continue to represent itself as a strong credit that investors can rely on.

The actions of Stockton and other municipalities that have filed, or are considering filing, for bankruptcy could disrupt access and increase the cost of funding throughout the municipal market. On behalf of our shareholders, policyholders and, frankly, everyone who wants municipalities to have efficient access to the critically needed capital markets, we intend to enforce our rights and oppose any discriminatory plan of adjustment that is not fair and equitable.

Now I want to discuss what we accomplished in the second quarter through our alternative strategic programs. We terminated transactions with a total net par outstanding of \$1.4 billion while collecting 97% of the ultimate future premium, and further increasing our rating agency capital. Also, we purchased, at a 40% discount, \$137 million of par of bonds we had insured, which produced an additional \$32 million of economic value.

On the liability side, our overall insured portfolio quality is strong. In the U.S. public finance, we paid claims in the second quarter on only three obligors in our direct U.S. municipal portfolio of approximately 11,000 exposures. Keep in mind that our obligation is only to make up shortfalls in debt service payments when the payments are due; we are not subject to forced acceleration.

We continue to observe the runoff of our structured finance portfolio, which is capital accretive. Additionally, in the second quarter, early stage RMBS delinquencies decreased in all categories except subprime and continue to remain well below their January levels in all categories. We are also optimistic about further rep and warranty recoveries. In this regard, two trial courts have ruled that a breach of loan eligibility justifies a putback whether or not the breach can be shown to have caused a loan default or delinquency. We believe that Syncora's recent rep and warranty settlement shows that such rulings in favor of bond insurers should further step up the pressure on rep and warranty providers to settle bond insurer claims for breaches, rather than risk having to pay much larger amounts based on court judgments. We stand ready to negotiate with Credit Suisse, UBS and other rep and warranty providers and believe it is in everyone's best interest to reach fair agreements. With these adverse decisions to our counterparties, we are somewhat surprised that most have not yet recorded increased liabilities and once again we call on their regulators, auditors and their Boards to monitor this critical area or potential liability.

Also during the quarter, we repurchased approximately 2.1 million shares out of our 5 million share repurchase authorization at an average price of \$11.76, which had a \$0.17 accretive effect on operating book value per share. We will continue to prudently and strategically repurchase our shares as part of our capital management strategy.

In looking at our financial strength, there is certainly no question about our capital adequacy. S&P, in its June 13, 2012 credit report on Assured Guaranty, said the capital of our operating subsidiaries exceeds S&P's AAA capital adequacy model threshold by \$350-400 million. Since the financial crisis began in 2008, we have earned more than \$1.8 billion from operations; added \$1.8 billion to our claims-paying resources, which now total \$13 billion; reduced insured leverage by 29%; increased our unearned premium reserves by 47% to \$5.6 billion; and obtained \$2.8 billion in recoveries from RMBS rep and warranty providers.

Before I conclude, I'd like to take a moment to offer a warm welcome to our newest Board member, Bonnie Howard. Bonnie brings over 30 years of experience in auditing and risk management. And we are fortunate to have her with us and look forward to the contributions she will make serving on the Board's Audit committee and Risk Oversight committee.

Now I'll turn the call over to Rob.

**Robert Bailenson**  
**Chief Financial Officer**

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

Operating income for the second quarter was 114 million dollars or 61 cents per share, compared with 143 million dollars, or 76 cents per share in the second quarter of 2011. These results reflect the scheduled amortization of the insured portfolio, and in particular, the structured finance inforce book of business.

In the second quarter of 2012, net earned premiums included refundings of 46 million dollars and accelerations of 22 million dollars, compared with refundings of 21 million dollars in the second quarter of 2011. The record low interest rate environment was one of the main drivers of the increase in the refundings as issuers refinanced their debt obligations. Accelerations in the second quarter of 2012 were due to the termination of certain international infrastructure transactions. It's part of our capital enhancement strategy to terminate contracts that have disproportionately high capital charges and reduce leverage.

Total economic loss development was 89 million dollars, net of a benefit of 16 million dollars due to foreign exchange rate movements.

Changes in discount rates have a significant impact on losses. During the second quarter of 2012, risk-free interest rates declined up to 90 basis points depending on tenor.

The declining risk free rates resulted in an increase of approximately 63 million dollars in economic losses in the quarter, however, this is not indicative of additional credit impairment, nor is it reflective of our own investment yields. Aside from this, there was no significant loss development in RMBS transactions.

The effective tax rate on operating income varies from quarter to quarter due to the amount of income in different tax jurisdictions, and was 30 percent for the second quarter of 2012. A higher percentage of the Company's loss development occurred in non-taxable jurisdictions, which resulted in a higher effective tax rate than in the second quarter of 2011.

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

Despite the low interest rate environment and Moody's ongoing ratings review, our direct U.S. public finance par written increased 28 percent compared to second quarter 2011 and the related PVP increased 5 percent.

On June 1, 2012, the Company retired 172.5 million dollars of debt that was a component of the equity units that we issued in 2009 to fund a portion of the FSAH Acquisition. Under the terms of the equity units, the debt holders purchased 13.4 million common shares at an average price of 12 dollars and 85 cents per share. The retirement of this debt will result in a savings of 14.7 million dollars in annual interest expense.

The repurchase of 2.1 million shares of common stock at an average price of 11 dollars and 76 cents per share, or a total of 24.3 million dollars, partially offset the issuance of new shares. The Company is authorized to repurchase up to 2.9 million additional shares.

Even in this challenging economic environment, our adjusted book value increased 104 million dollars in the second quarter of 2012 to 9.1 billion dollars, due primarily to the 172.5 million dollars of additional paid in capital, and new business production.

As always, I refer you to our press release and financial supplement for explanations and reconciliations of the non-GAAP financial measures that I reference in my commentary.

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

**Operator**

(Operator Instructions) Our first question comes from Mark Palmer at BTIG.

**Mark Palmer – BTIG**

Good morning. Could you please walk us through the process of challenging Stockton's bankruptcy, what that entails and what the timetable is?

**Dominic Frederico**

Sure. As you know Chapter 9 has various criteria of eligibility, you know, principle among them or things like you have to prove your insolvency. Another principle is that there has to have been a good faith attempt to negotiate a settlement with creditors, and I think is you're going to read through other people that are going to contest the filing, that's probably going to be the two most quoted criteria failures that people believe were not affected in this recent filing.

**Mark Palmer – BTIG**

Thank you. And can you also provide an update on where things stand in negotiations with Jefferson county?

## **Dominic Frederico**

Well, as you know Jefferson county is already in bankruptcy. There has been a number of decisions made by the judge. Regretfully most of them are being appealed. One such as removing the state appointed receiver, another was there was a challenge to what were “net revenues” that were available to pay debt service. As you might know, we received a very favorable ruling a couple weeks ago that the judge ruled that you could not put things like depreciation, legal fees etc. into the calculation but once again that’s being appealed.

So all I can tell you is that Jefferson County, you know, we had a deal on the table that the creditors and we thought the water authority could agree to that was not approved by the commissioners. Hopefully someday we'll get back to something along those lines, but the bankruptcy process and these challenges and the decisions will appear to take a very, very long time.

## **Mark Palmer – BTIG**

Thank you.

## **Operator**

The next question comes from Brian Meredith at UBS.

## **Brian Meredith – UBS**

Good morning Dominic. A couple of questions here for you. The first one, I’m just curious, on Build America Mutual, I know it clearly kind of validates the market here some – but I’m wondering do you think given the mutual structure, may have a somewhat depressing impact on pricing our there?

## **Dominic Frederico**

Well, I don't think they should. I mean obviously they've got return from hurdles like everyone else. S&P in their review of the company put a threshold out there for the premium index that they have to achieve. Our market does create a floor and a ceiling over pricing, and therefore that establishes a level of discipline. So, I think we're quite confident that pricing will be maintained and remember, you know, the biggest pressure on our pricing is really interest rates.

**Brian Meredith – UBS**

Right. And then the second question, I've noticed dividend activity out of AGM and AGC is what was on AG Re year to date has been up fairly significantly over last year. I'm wondering what the dividend activity is for specifically out of AGM and AGC?

**Dominic Frederico**

Well, dividends coming out of the subsidiaries into the parent company just create capital flexible for us and allow us to obviously do things like manage capital through buybacks, allows us to potentially fund new operations. So it's really creating, as we keep talking about our capital flexibility that we strive to achieve as we look to further address the challenges that we see in the marketplace and take advantage of the opportunities that we see in the marketplace.

**Rob Bailenson**

In addition, Brian, as you know we participated in the equity units and remarketing of our debt, and we used that cash to actually pay off the debt and actually remarket those notes ourselves and that cash went up to the holding company too in exchange for stock.

**Brian Meredith – UBS**

Great, And any, on that topic too, with respect to MIAC any kind of changes or thoughts there as far as uses?

**Dominic Frederico**

Well, we considered to... and we need to rename this thing, because I'm sick and tired of hearing MIAC. I put a contest out to our employees to come up with a better name. So, let's call it Newco, but obviously we believe Newco is an incredibly strong competitive tool for us, as well as a potential mechanism to generate further market participation. And as such we will continue to make the necessary plans and finalize our planning on that to see if that opportunity continues to present itself, you know, that we will execute and take advantage of.

**Brian Meredith – UBS**

Great, thank you.

**Dominic Frederico**

You're welcome.

**Operator**

This concludes our question and answer session. I would like to turn the conference back over to Mr. Tucker for any closing remarks.

**Robert Tucker**

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