



# QUARTERLY STATEMENT

## AS OF SEPTEMBER 30, 2012 OF THE CONDITION AND AFFAIRS OF THE ASSURED GUARANTY CORP.

NAIC Group Code 0194 , 00194 NAIC Company Code 30180 Employer's ID Number 52-1533088  
(Current Period) (Prior Period)

Organized under the Laws of Maryland , State of Domicile or Port of Entry Maryland  
Country of Domicile United States

Incorporated/Organized 10/25/1985 Commenced Business 01/28/1988

Statutory Home Office 31 W 52nd Street , New York, NY 10019  
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 31 W 52nd Street New York, NY 10019 212-974-0100  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 31 W 52nd Street , New York, NY 10019  
(Street and Number or P.O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 31 W 52nd Street New York, NY 10019 212-974-0100  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Web Site Address www.assuredguaranty.com

Statutory Statement Contact John Mahlon Ringler 212-974-0100  
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### OFFICERS

Name	Title	Name	Title
<u>Dominic John Frederico</u>	<u>President and Chief Executive Officer</u>	<u>James Michael Michener</u>	<u>Secretary and General Counsel</u>
<u>Donald Hal Paston</u>	<u>Treasurer</u>		

### OTHER OFFICERS

<u>Howard Wayne Albert</u>	<u>Chief Risk Officer</u>	<u>Robert Adam Bailenson</u>	<u>Chief Financial Officer</u>
<u>Laura Ann Bieling</u>	<u>Controller</u>	<u>Russell Brown Brewer II</u>	<u>Chief Surveillance Officer</u>
<u>Stephen Donnarumma</u>	<u>Chief Credit Officer</u>	<u>Robert Bruce Mills</u>	<u>Chief Operating Officer</u>
<u>John Mahlon Ringler</u>	<u>Assistant Vice President Regulatory Reporting</u>	<u>Benjamin Gad Rosenblum</u>	<u>Chief Actuary</u>

### DIRECTORS OR TRUSTEES

<u>Howard Wayne Albert</u>	<u>Robert Adam Bailenson</u>	<u>Russell Brown Brewer II</u>	<u>Gon Ling Chow</u>
<u>Dominic John Frederico</u>	<u>James Michael Michener</u>	<u>Robert Bruce Mills</u>	<u>Donald Hal Paston</u>
<u>Bruce Elliot Stern</u>			

State of .....New York.....

County of .....New York.....ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

<u>DOMINIC JOHN FREDERICO</u> President	<u>JAMES MICHAEL MICHENER</u> Secretary	<u>DONALD HAL PASTON</u> Treasurer
Subscribed and sworn to before me this _____ day of _____,		a. Is this an original filing? Yes [X] No [ ]
_____		b. If no:
		1. State the amendment number _____
		2. Date filed _____
		3. Number of pages attached _____

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds .....	2,468,121,584		2,468,121,584	2,522,711,000
2. Stocks:				
2.1 Preferred stocks .....			0	0
2.2 Common stocks .....	129,691,133	748,923	128,942,210	126,352,159
3. Mortgage loans on real estate:				
3.1 First liens .....			0	0
3.2 Other than first liens .....			0	0
4. Real estate:				
4.1 Properties occupied by the company (less \$ ..... encumbrances) .....	2,647,472	2,647,472	0	0
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....			0	0
4.3 Properties held for sale (less \$ ..... encumbrances) .....			0	0
5. Cash (\$ .....6,346,702 ), cash equivalents (\$ .....65,329,636 ) and short-term investments (\$ ..... 67,029,333 ) .....	138,705,670		138,705,670	164,627,456
6. Contract loans (including \$ ..... premium notes) .....			0	0
7. Derivatives .....			0	0
8. Other invested assets .....	38,321,624	12,500,000	25,821,624	25,822,527
9. Receivables for securities .....			0	1,500,000
10. Securities lending reinvested collateral assets .....			0	0
11. Aggregate write-ins for invested assets .....	0	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	2,777,487,483	15,896,395	2,761,591,088	2,841,013,142
13. Title plants less \$ ..... charged off (for Title insurers only) .....			0	0
14. Investment income due and accrued .....	29,416,743		29,416,743	28,522,028
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection .....	32,376,230	1,707,616	30,668,614	35,611,869
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums) .....			0	0
15.3 Accrued retrospective premiums .....			0	0
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers .....	12,875,905		12,875,905	11,340,630
16.2 Funds held by or deposited with reinsured companies .....			0	484,077
16.3 Other amounts receivable under reinsurance contracts .....	4,345		4,345	6,038
17. Amounts receivable relating to uninsured plans .....			0	0
18.1 Current federal and foreign income tax recoverable and interest thereon .....			0	0
18.2 Net deferred tax asset .....	101,873,480	39,425,546	62,447,934	42,824,922
19. Guaranty funds receivable or on deposit .....			0	0
20. Electronic data processing equipment and software .....	186,463		186,463	319,727
21. Furniture and equipment, including health care delivery assets (\$ ..... ) .....	2,104,029	2,104,029	0	0
22. Net adjustment in assets and liabilities due to foreign exchange rates .....	189,690		189,690	0
23. Receivables from parent, subsidiaries and affiliates .....	38,140,234	145,093	37,995,141	23,948,397
24. Health care (\$ ..... ) and other amounts receivable .....			0	0
25. Aggregate write-ins for other than invested assets .....	49,828,493	845,582	48,982,911	26,337,095
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) .....	3,044,483,095	60,124,261	2,984,358,834	3,010,407,925
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....			0	0
28. Total (Lines 26 and 27) .....	3,044,483,095	60,124,261	2,984,358,834	3,010,407,925
<b>DETAILS OF WRITE-INS</b>				
1101. ....			0	0
1102. ....				
1103. ....				
1198. Summary of remaining write-ins for Line 11 from overflow page .....	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above) .....	0	0	0	0
2501. Supplemental Executive Retirement Plan .....	13,581,455		13,581,455	14,430,538
2502. Other assets .....	30,325,492	142,330	30,183,162	11,899,694
2503. Prepaid expense .....	540,267	540,267	0	0
2598. Summary of remaining write-ins for Line 25 from overflow page .....	5,381,279	162,985	5,218,294	6,863
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) .....	49,828,493	845,582	48,982,911	26,337,095

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ 7,084,372 )	344,862,336	336,062,030
2. Reinsurance payable on paid losses and loss adjustment expenses	219,914	1,696,289
3. Loss adjustment expenses	6,964,025	8,695,476
4. Commissions payable, contingent commissions and other similar charges	4,674,905	4,853,087
5. Other expenses (excluding taxes, licenses and fees)	48,421,325	53,701,426
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	(2,937,921)	(3,254,547)
7.1 Current federal and foreign income taxes (including \$ 1,026,031 on realized capital gains (losses))	18,636,458	12,309,875
7.2 Net deferred tax liability		0
8. Borrowed money \$ and interest thereon \$		0
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$ 296,263,754 and including warranty reserves of and accrued accident and health experience rating refunds including \$ for medical loss ratio rebate per the Public Health Service Act)	789,611,018	826,446,509
10. Advance premium		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)	6,647,848	9,172,965
13. Funds held by company under reinsurance treaties	8,340,341	9,197,274
14. Amounts withheld or retained by company for account of others	(436,087)	(425,122)
15. Remittances and items not allocated		0
16. Provision for reinsurance	1,087,500	0
17. Net adjustments in assets and liabilities due to foreign exchange rates		126,920
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates	20,218,693	17,603,723
20. Derivatives		0
21. Payable for securities		0
22. Payable for securities lending		0
23. Liability for amounts held under uninsured plans		0
24. Capital notes \$ and interest thereon \$		0
25. Aggregate write-ins for liabilities	821,821,224	712,722,823
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	2,068,131,579	1,988,908,728
27. Protected cell liabilities		0
28. Total liabilities (Lines 26 and 27)	2,068,131,579	1,988,908,728
29. Aggregate write-ins for special surplus funds	0	0
30. Common capital stock	15,000,480	15,000,480
31. Preferred capital stock		0
32. Aggregate write-ins for other than special surplus funds	0	0
33. Surplus notes	300,000,000	300,000,000
34. Gross paid in and contributed surplus	924,175,830	923,849,395
35. Unassigned funds (surplus)	(322,949,055)	(217,350,678)
36. Less treasury stock, at cost:		
36.1 shares common (value included in Line 30 \$ )		0
36.2 shares preferred (value included in Line 31 \$ )		0
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	916,227,255	1,021,499,197
38. Totals (Page 2, Line 28, Col. 3)	2,984,358,834	3,010,407,925
<b>DETAILS OF WRITE-INS</b>		
2501. Supplemental Executive Retirement Plan	18,757,439	14,430,538
2502. Contingency Reserve	800,042,496	690,576,660
2503. Liability for Lease	2,608,384	4,370,804
2598. Summary of remaining write-ins for Line 25 from overflow page	412,905	3,344,821
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	821,821,224	712,722,823
2901. ....		
2902. ....		
2903. ....		
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	0
3201. ....		
3202. ....		
3203. ....		
3298. Summary of remaining write-ins for Line 32 from overflow page	0	0
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)	0	0

## STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct (written \$ 75,452,216 )	118,050,466	141,901,740	177,176,085
1.2 Assumed (written \$ 27,879,716 )	29,706,937	24,878,148	31,770,779
1.3 Ceded (written \$ 32,136,951 )	43,465,796	49,599,293	65,998,327
1.4 Net (written \$ 71,194,981 )	104,291,607	117,180,595	142,948,537
DEDUCTIONS:			
2. Losses incurred (current accident year \$ 13,379,706 ):			
2.1 Direct	67,333,964	(76,919,891)	(109,462,971)
2.2 Assumed	12,720,013	(23,615,840)	7,216,244
2.3 Ceded	24,095,273	(10,061,169)	(3,550,563)
2.4 Net	55,958,704	(90,474,562)	(98,696,164)
3. Loss adjustment expenses incurred	3,532,627	6,821,182	12,715,923
4. Other underwriting expenses incurred	50,816,717	69,887,508	67,914,438
5. Aggregate write-ins for underwriting deductions	0	0	17,392,500
6. Total underwriting deductions (Lines 2 through 5)	110,308,048	(13,765,872)	(673,303)
7. Net income of protected cells	0	0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(6,016,441)	130,946,467	143,621,840
<b>INVESTMENT INCOME</b>			
9. Net investment income earned	72,056,517	69,935,080	80,046,743
10. Net realized capital gains (losses) less capital gains tax of \$ 1,026,031	(28,595,978)	(863,752)	(1,162,862)
11. Net investment gain (loss) (Lines 9 + 10)	43,460,539	69,071,328	78,883,881
<b>OTHER INCOME</b>			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ amount charged off \$ )		0	0
13. Finance and service charges not included in premiums		0	0
14. Aggregate write-ins for miscellaneous income	(1,042,220)	11,273,500	10,916,980
15. Total other income (Lines 12 through 14)	(1,042,220)	11,273,500	10,916,980
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	36,401,878	211,291,295	233,422,701
17. Dividends to policyholders		0	0
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	36,401,878	211,291,295	233,422,701
19. Federal and foreign income taxes incurred	(66,496)	(21,986,686)	3,485,016
20. Net income (Line 18 minus Line 19)(to Line 22)	36,468,374	233,277,981	229,937,685
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year	1,021,499,196	854,119,958	854,119,958
22. Net income (from Line 20)	36,468,374	233,277,981	229,937,685
23. Net transfers (to) from Protected Cell accounts		0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$	7,015,823	(1,481,127)	405,477
25. Change in net unrealized foreign exchange capital gain (loss)	4,055,475	(227,385)	(156,234)
26. Change in net deferred income tax	(14,252,578)	(76,685,048)	(60,459,741)
27. Change in nonadmitted assets	(1,246,664)	26,042,916	15,608,484
28. Change in provision for reinsurance	(1,087,500)	0	0
29. Change in surplus notes		0	0
30. Surplus (contributed to) withdrawn from protected cells		0	0
31. Cumulative effect of changes in accounting principles		0	0
32. Capital changes:			
32.1 Paid in		0	0
32.2 Transferred from surplus (Stock Dividend)		0	0
32.3 Transferred to surplus		0	0
33. Surplus adjustments:			
33.1 Paid in	326,435	0	0
33.2 Transferred to capital (Stock Dividend)		0	0
33.3 Transferred from capital		0	0
34. Net remittances from or (to) Home Office		0	0
35. Dividends to stockholders	(55,001,760)	(20,000,640)	(30,000,960)
36. Change in treasury stock		0	0
37. Aggregate write-ins for gains and losses in surplus	(81,549,546)	96,480,197	12,044,527
38. Change in surplus as regards policyholders (Lines 22 through 37)	(105,271,941)	257,406,894	167,379,238
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	916,227,255	1,111,526,852	1,021,499,196
<b>DETAILS OF WRITE-INS</b>			
0501. Termination Fee		0	17,392,500
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0	17,392,500
1401. Other Income	(1,042,220)	11,273,500	10,916,980
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)	(1,042,220)	11,273,500	10,916,980
3701. Change in Contingency Reserve	(109,465,835)	96,480,197	12,044,527
3702. Change in Accounting SAP 101 (Taxes)	27,916,289		
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0	0
3799. TOTALS (Lines 3701 through 3703 plus 3798) (Line 37 above)	(81,549,546)	96,480,197	12,044,527

## CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
<b>Cash from Operations</b>			
1. Premiums collected net of reinsurance.....	68,226,045	95,008,565	112,774,138
2. Net investment income .....	75,967,447	74,114,170	84,938,535
3. Miscellaneous income .....	(556,450)	11,267,319	10,912,441
4. Total (Lines 1 to 3) .....	143,637,042	180,390,054	208,625,114
5. Benefit and loss related payments .....	50,170,048	(18,655,843)	15,594,070
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions .....	61,158,955	95,993,807	107,713,241
8. Dividends paid to policyholders .....	0	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ ..... tax on capital gains (losses).....	(5,367,049)	(38,818,934)	(38,818,933)
10. Total (Lines 5 through 9) .....	105,961,954	38,519,030	84,488,378
11. Net cash from operations (Line 4 minus Line 10) .....	37,675,088	141,871,024	124,136,736
<b>Cash from Investments</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds .....	276,478,886	622,155,763	715,434,371
12.2 Stocks .....	26,983,143	58,402,711	63,813,667
12.3 Mortgage loans .....	0	0	0
12.4 Real estate .....	0	0	0
12.5 Other invested assets .....	903	0	12,746,899
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	1,768	1,190	1,609
12.7 Miscellaneous proceeds .....	5,319,109	11,576,611	6
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	308,783,809	692,136,275	791,996,552
13. Cost of investments acquired (long-term only):			
13.1 Bonds .....	254,646,934	729,710,838	886,626,367
13.2 Stocks .....	23,306,294	55,469,321	64,254,847
13.3 Mortgage loans .....	0	0	0
13.4 Real estate .....	0	0	0
13.5 Other invested assets .....	0	7,655,898	7,655,898
13.6 Miscellaneous applications .....	0	3,699,454	1,534,808
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	277,953,228	796,535,511	960,071,920
14. Net increase (or decrease) in contract loans and premium notes .....	0	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14) .....	30,830,581	(104,399,236)	(168,075,368)
<b>Cash from Financing and Miscellaneous Sources</b>			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes .....	0	0	0
16.2 Capital and paid in surplus, less treasury stock.....	326,435	0	0
16.3 Borrowed funds .....	0	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities .....	0	0	0
16.5 Dividends to stockholders .....	55,001,760	20,000,640	30,000,960
16.6 Other cash provided (applied).....	(40,079,565)	(4,127,975)	(209,387)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6).....	(94,754,890)	(24,128,615)	(30,210,347)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) .....	(26,249,221)	13,343,173	(74,148,979)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	164,627,456	239,046,435	238,776,435
19.2 End of period (Line 18 plus Line 19.1) .....	138,378,235	252,389,608	164,627,456

## NOTES TO FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### A. Accounting Practices

The accompanying financial statements have been prepared in accordance with statutory accounting practices ("SAP") prescribed or permitted by the Maryland Insurance Administration and the National Association of Insurance Commissioners ("NAIC"). Assured Guaranty Corp. (the "Company" or "AGC") is a Maryland domiciled company which commenced operations in January 1988 and provides insurance and reinsurance on financial guaranty exposures that are investment grade at inception. The Company is an indirect wholly-owned subsidiary of Assured Guaranty Ltd. ("AGL" and, together with its subsidiaries, "Assured Guaranty").

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the state of Maryland is shown below:

	<b>Nine Months Ended September 30, 2012</b>
Net Income, Maryland Basis.....	<u>\$ 36,468,374</u>
Net Income, NAIC SAP.....	<u>\$ 36,468,374</u>
Statutory Surplus, Maryland Basis.....	<u>\$916,227,255</u>
Statutory Surplus, NAIC SAP.....	<u>\$916,227,255</u>

#### B. Use of Estimates in the Preparation of the Financial Statements.

There has been no change since the 2011 Annual Statement.

#### C. Accounting Policies

There has been no significant change since the 2011 Annual Statement except for the adoption of SSAP No. 101. See Note 2.

### 2. Accounting Changes and Corrections of Errors

On November 6, 2011, the NAIC adopted SSAP No. 101, Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10, effective for reporting periods beginning on or after January 1, 2012. SSAP No. 101 provides for a three year realization period for financial guaranty companies if certain adjusted surplus limits are met which expands the one year realization period under SSAP No. 10. SSAP No. 101 also modified the applicable guidance for contingent tax liabilities as per SSAP No. 5R by applying a more likely than not threshold. The impact of adopting SSAP No. 101 on January 1, 2012, was to increase admitted deferred tax assets by \$32.6 million, tax liabilities by \$4.7 million and surplus to policyholders by \$27.9 million.

### 3. Business Combinations and Goodwill

There has been no change since the 2011 Annual Statement.

### 4. Discontinued Operations

There has been no change since the 2011 Annual Statement.

### 5. Investments

A, B, C, E, F, G - Not applicable

#### D. Loan-Backed Securities

- Prepayment assumptions for loan backed and structured securities were obtained from publicly available sources and internal models.
- The following table summarizes by quarter other-than-temporary-impairments ("OTTI") for loan-backed securities recording during the year because the Company had either the intent to sell the securities or the inability or lack of intent to retain as cited in the table:

Description	Amortized Cost Before OTTI	OTTI	Fair Value
<b>OTTI Recognized 1<sup>st</sup> Quarter</b>			
a. Intent to sell	\$ -	\$ -	\$ -
b. Lack of intent to retain security	44,951,827	29,401,437	15,550,390
<b>c. Total 1<sup>st</sup> Quarter</b>	<u>\$44,951,827</u>	<u>\$29,401,437</u>	<u>\$15,550,390</u>
<b>OTTI Recognized 2<sup>nd</sup> Quarter</b>			
d. Intent to sell	\$ -	\$ -	\$ -
e. Lack of intent to retain security	-	-	-
<b>f. Total 2<sup>nd</sup> Quarter</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>OTTI Recognized 3<sup>rd</sup> Quarter</b>			
g. Intent to sell	\$ -	\$ -	\$ -
h. Lack of intent to retain security	-	-	-
<b>i. Total 3<sup>rd</sup> Quarter</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>j. Total Year To Date</b>	<u>\$44,951,827</u>	<u>\$29,401,437</u>	<u>\$15,550,390</u>

- The following table summarizes current year other-than-temporary impairments recorded for loan-backed securities which the Company still owns at the end of the quarter recorded based on the fact that the present value of projected cash flows expected to be collected was less than the amortized cost of the securities:

Cusip	Amortized Cost Before OTTI	Present Value of Projected Cash Flow	OTTI	Amortized Cost After OTTI	Fair Value @ Time of OTTI	Date of Financial Statement Where Reported
88158A-AJ-1	\$ 2,111,838	\$ 2,034,102	\$ 77,736	\$ 2,034,102	\$ 664,084	3/31/2012
058521-AC-9	15,163,487	14,843,573	319,914	14,843,573	9,291,169	6/30/2012
02149Q-AE-0	10,140,865	10,043,249	97,616	10,043,249	8,145,679	9/30/2012
058521-AC-9	15,174,612	14,694,160	480,452	14,694,160	13,753,218	9/30/2012
88158A-AJ-1	1,894,834	1,699,063	195,771	1,699,063	649,925	9/30/2012
<b>TOTAL</b>	<u>\$44,485,634</u>	<u>\$43,314,147</u>	<u>\$1,171,488</u>	<u>\$43,314,147</u>	<u>\$32,504,075</u>	

## NOTES TO FINANCIAL STATEMENTS

4. The following summarizes gross unrealized investment losses on loan-backed and structured securities by the length of time that securities have continuously been in an unrealized loss position.

	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	\$11,099,767	\$(2,056,252)	\$3,205,407	\$(3,192,522)	\$14,305,174	\$(5,248,774)
Other loan-backed securities	47,272,001	(2,510,640)	-	-	47,272,001	(2,510,640)
<b>Total</b>	<b>\$58,371,768</b>	<b>\$(4,566,892)</b>	<b>\$3,205,407</b>	<b>\$(3,192,522)</b>	<b>\$61,577,175</b>	<b>\$(7,759,413)</b>

5. All loan-backed securities in an unrealized loss position were reviewed to determine whether an other-than-temporary impairment should be recognized. For those securities in an unrealized loss position as of September 30, 2012, the Company has not made a decision to sell any such securities. The Company has evaluated its cash flow requirements and believes that its liquidity is adequate and it will not be required to sell these securities before recovery of their cost basis. This unrealized loss is primarily attributable to the market illiquidity and volatility in the U.S. economy and not specific to individual issuer credit.

### 6. Joint Ventures, Partnerships and Limited Liability Companies

There has been no change since the 2011 Annual Statement.

### 7. Investment Income

There has been no change since the 2011 Annual Statement.

### 8. Derivative Instruments

There has been no change since the 2011 Annual Statement.

### 9. Income Taxes

On November 6, 2011, the NAIC adopted SSAP No. 101, Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10, effective for reporting periods beginning on or after January 1, 2012. SSAP No. 101 provides for a three year realization period for financial guaranty companies if certain adjusted surplus limits are met which expands the one year realization period under SSAP No. 10. SSAP No. 101 also modified the applicable guidance for contingent tax liabilities as per SSAP No. 5R by applying a more likely than not threshold. The impact of adopting SSAP No. 101 on January 1, 2012, was to increase admitted deferred tax assets by \$32.6 million, tax liabilities by \$4.7 million and surplus to policyholders by \$27.9 million.

### 10. Information Concerning Parent, Subsidiaries and Affiliates

Effective January 1, 2012, AGC formed a new wholly-owned subsidiary AG PFC Holding LLC ("AGPFC"), a Delaware limited liability company which, in turn, entered into an Assignment and Assumption Agreement with AG Financial Products, Inc. ("AGFP") pursuant to which AGFP transferred its ownership and other interests held in AGFP Holding LLC to AGPFC, assigned certain rights to AGPFC and caused AGPFC to assume certain obligations of AGFP. The transferred ownership and assumed obligations relate to a film library securitization that AGC guarantees. The carrying value for this subsidiary is zero at September 30, 2012.

### 11. Debt

There has been no change since the 2011 Annual Statement.

### 12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

There has been no change since the 2011 Annual Statement.

### 13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

There has been no significant change since the 2011 Annual Statement.

### 14. Contingencies

There have been no changes since the 2011 Annual Statement except as follows:

#### ***Proceedings Relating to the Company's Financial Guaranty Business***

The Company receives subpoenas duces tecum and interrogatories from regulators from time to time.

With respect to the litigation brought by City of Los Angeles, acting by and through the Department of Water and Power; City of Sacramento; City of Los Angeles; City of Oakland; City of Riverside; City of Stockton; County of Alameda; County of Contra Costa; County of San Mateo; Los Angeles World Airports; City of Richmond; Redwood City; East Bay Municipal Utility District; Sacramento Suburban Water District; City of San Jose; County of Tulare; The Regents of the University of California; The Redevelopment Agency of the City of Riverside; The Public Financing Authority of the City of Riverside; The Jewish Community Center of San Francisco; The San Jose Redevelopment Agency; The Redevelopment Agency of the City of Stockton; The Public Financing Authority of the City of Stockton; and The Olympic Club against the Company and its affiliate AGM, on May 1, 2012, the court ruled in favor of the Company, AGM and the other bond insurer defendants on the first stage of the anti-SLAPP motion as to the causes of action arising from the alleged conspiracy, but denied the motion as to those causes of action based on transaction specific representations and omissions about the bond insurer defendants' credit ratings and financial health. The court has scheduled a hearing on the second stage of the anti-SLAPP motion for March 6, 2013.

Regarding the complaint filed by Lehman Brothers International (Europe) (in administration) ("LBIE") against AG Financial Products Inc. ("AG Financial Products"), an affiliate of AGC, on February 3, 2012, AG Financial Products filed a motion to dismiss certain of the counts in the complaint. Oral arguments on such motion to dismiss took place in September 2012.

#### ***Recovery Litigation***

#### ***RMBS Transactions***

As of the date of this filing, AGC has lawsuits pending against a number of providers of representations and warranties in U.S. RMBS transactions insured by it, seeking damages, including indemnity or reimbursement for losses. In the lawsuits, AGC has alleged breaches of R&W both in respect of the underlying loans in the transactions and the accuracy of the information provided to AGC, and failure to cure or repurchase defective loans identified by AGC to such persons:

- **J.P. Morgan:** AGC has sued JPMorgan Chase & Co.'s affiliate EMC Mortgage LLC, J.P. Morgan Securities Inc. (formerly known as Bear, Stearns & Co. Inc.) and JPMorgan Chase Bank, N.A. on the SACO I Trust 2005-GP1 second lien transaction and EMC Mortgage LLC on the Bear Stearns Asset Backed Securities I Trust 2005-AC5 and Bear Stearns Asset Backed Securities I Trust 2005-AC6 first lien transactions.

In addition, AGC and its affiliate AGM have brought actions against providers of R&W in U.S. RMBS transactions insured by them, alleging breaches of R&W in respect of the underlying loans in the transactions, breaches of contract in procuring falsely inflated shadow ratings (a condition to the issuance by AGC and AGM of its policies) by providing false and misleading information to the rating agencies, and failure to cure or repurchase defective loans identified by AGC and AGM:

## NOTES TO FINANCIAL STATEMENTS

**Credit Suisse:** AGC and AGM have sued DLJ Mortgage Capital, Inc. ("DLJ") and Credit Suisse Securities (USA) LLC ("Credit Suisse") on first lien U.S. RMBS transactions insured by them. The ones insured by AGC are: CSAB Mortgage-Backed Pass Through Certificates, Series 2007-1 and TBW Mortgage-Backed Pass Through Certificates, Series 2007-2. On December 6, 2011, DLJ and Credit Suisse filed a motion to dismiss the cause of action asserting breach of the document containing the condition precedent regarding the rating of the securities and claims for rescissionary damages and other relief in the complaint, and on October 11, 2012, the Supreme Court of the State of New York granted the motion to dismiss. AGC and AGM intend to appeal the dismissal of certain of its claims. The causes of action against DLJ for breach of R&W and breach of its repurchase obligations remain.

The lawsuit that the Company had brought against the affiliates of Deutsche Bank AG that the Company had described in the 2011 Annual Statement was dismissed in May 2012.

### 15. Leases

There has been no change since the 2011 Annual Statement.

### 16. Information about Financial Instruments with Off-Balance Sheet Risk, Financial Instruments with Concentrations of Credit

There has been no significant change since the 2011 Annual Statement.

### 17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

There has been no change since the 2011 Annual Statement.

### 18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

There has been no change since the 2011 Annual Statement.

### 19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

There has been no change since the 2011 Annual Statement.

### 20. Fair Value

#### A. Inputs Used for Assets and Liabilities Measured and Reported at Fair Value

#### 1. Items Measured and Reported at Fair Value by Levels 1, 2 and 3

The Company has categorized its assets and liabilities that are reported on the balance sheet at fair value into the three-level hierarchy as reflected in the table below. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows.

- Level 1 – Quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.
- Level 3 – Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

An asset or liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. Bonds are generally recorded at amortized cost. Stocks, excluding those for investments in subsidiaries, are reported at fair value on a recurring basis. The Company has no assets or liabilities measured at fair value in this category.

#### Cash and Short-Term Investments

The carrying amounts reported in the statement of admitted assets, liabilities and surplus for these instruments are at amortized cost.

#### Bonds

Bonds with an NAIC designation of 1 and 2 are carried at amortized cost while bonds with an NAIC designation of 3 through 6 are carried at the lower of cost or fair value.

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

#### Stocks

The Company's Stocks are comprised primarily of investments in subsidiaries. Investments in subsidiaries are carried on the equity basis, to the extent admissible.

#### 2. Rollforward of Level 3 Items

Not Applicable

#### 3. Policy on Transfers Into and Out of Level 3

Transfers in and out of Level 3 are recognized at the end of the quarter when the Company evaluates whether securities with unobservable inputs need to be carried at fair value. There were no securities carried at fair value at September 30, 2012.

#### 4. Inputs and Techniques Used for Level 2 and Level 3 Fair Values

Level 3 securities were priced with the assistance of an independent third party. The pricing is based on a discounted cash flow approach using third party sources and proprietary pricing models. The models use inputs such as projected prepayment speeds; severity

## NOTES TO FINANCIAL STATEMENTS

assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); house price depreciation/appreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the bond, including collateral type, weighted average life, sensitivity to losses, vintage and convexity, in conjunction with market date on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

### 5. Derivative Fair Values

The Company does not own derivatives at September 30, 2012.

### B. Other Fair Value Disclosures

Not applicable

### C. Fair Values for All Financial Instruments by Levels 1, 2 and 3

The table below reflects the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method. The fair values are also categorized into the three-level fair value hierarchy as described in Note 20A.

(in thousands of dollars)

Type of Financial Instrument	Fair Value	Admitted Value	Level 1	Level 2	Level 3
Bonds	\$2,672,799	\$2,468,121	\$ -	\$2,586,562	\$86,237
Common stocks	-	-	-	-	-
Cash equivalents and short-term investments	138,715	138,706	69,741	68,974	-
Other invested assets	<u>25,822</u>	<u>25,822</u>	<u>25,822</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$2,837,335</u>	<u>\$2,632,649</u>	<u>\$95,562</u>	<u>\$2,655,536</u>	<u>\$86,237</u>

### D. Financial Instruments for Which it is Not Practical to Estimate Fair Values

Not applicable

## 21. Other Items

A, B, C, E, F. There has been no change since the 2011 Annual Statement.

D. As of September 30, 2012, the Company had uncollected premiums of \$32,376,230. Uncollected premiums more than 90 days past due were \$1,707,616.

G. Subprime Mortgage-Related Exposure

(1) through (3) Not applicable.

(4) Underwriting Exposure

### Third Quarter-End 2012 U.S. RMBS Loss Projections

The Company's RMBS loss projection methodology assumes that the housing and mortgage markets will eventually improve. Each quarter the Company makes a judgment as to whether to change its assumptions used to make RMBS loss projections based on its observation during the quarter of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and, for first liens, loss severity) as well as the residential property market and economy in general, and, to the extent it observes changes, it makes a judgment as to whether those changes are normal fluctuations or part of a trend. Based on such observations, the Company chose to use essentially the same methodology and scenarios to project RMBS loss as of September 30, 2012 as it used as of June 30, 2012. The methodology and scenarios used as of September 30, 2012 were also essentially the same as those it used as of December 31, 2011, except that as compared to December 31, 2011 (i) in its most optimistic scenario, it reduced by three months the period it assumed it would take the mortgage market to recover and (ii) in its most pessimistic scenario, it increased by three months the period it assumed it would take the mortgage market to recover. The methodology the Company uses to project RMBS losses and the scenarios it employs are described in more detail below under "— U.S. Second Lien RMBS Loss Projections: Home Equity Lines of Credit ("HELOCs") and Closed-End Second Lien" and "— U. S. First Lien RMBS Loss Projections: Alt A First Lien, Option ARM, Subprime and Prime."

### U.S. Second Lien RMBS Loss Projections: Home Equity Lines of Credit ("HELOCs") and Closed-End Second Lien

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

The delinquency performance of HELOC and closed end second lien exposures included in transactions insured by the Company began to deteriorate in 2007, and such transactions, continue to perform below the Company's original underwriting expectations. While insured securities benefit from structural protections within the transactions designed to absorb collateral losses in excess of previous historically high levels, in many second lien RMBS projected losses now exceed those structural protections.

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

The following table shows the range of key assumptions for the calculation of loss reserves for individual transactions for direct vintage 2004 - 2008 second lien U.S. RMBS.

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Key Assumptions in Base Case Loss Reserve Estimates  
Second Lien RMBS<sup>(1)</sup>

HELOC key assumptions	As of	As of
	September 30, 2012	December 31, 2011
Plateau CDR.....	7.8 – 11.7%...	6.3 – 17.9%
Final CDR trended down to.....	0.5 – 2.2%...	0.5 – 2.2%
Expected period until final CDR.....	36 months.....	36 months
Initial CPR.....	3.7 – 11.6%...	3.5 – 24.6%
Final CPR.....	10%.....	10%
Loss severity.....	98%.....	98%
Initial draw rate.....	0.0 – 0.1%...	0.0 – 0.4%

Closed-end second lien key assumptions	As of	As of
	September 30, 2012	December 31, 2011
Plateau CDR.....	6.2 – 19.0%...	6.9 – 24.8%
Final CDR trended down to.....	3.5 – 9.1%...	3.5 – 9.2%
Expected period until final CDR.....	36 months.....	36 months
Initial CPR.....	1.8 – 10.1%...	0.9 – 14.7%
Final CPR.....	10%.....	10%
Loss severity.....	98%.....	98%

(1) Represents variables for most heavily weighted scenario (the “base case”).

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

As of September 30, 2012, for the base case scenario, the CDR (the “plateau CDR”) was held constant for one month. 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 case scenario, the time over which the CDR trends down to its final CDR is 30 months. Therefore, the total stress period for second lien transactions is 36 months, comprising five months of delinquent data, a one month plateau period and 30 months of decrease to the steady state CDR. This is the same as June 30, 2012 and December 31, 2011. The long-term steady state CDR is calculated as the constant CDR that would have yielded the amount of losses originally expected at underwriting. When a second lien loan defaults, there is generally a very low recovery. Based on current expectations of future performance, the Company assumes that it will only recover 2% of the collateral, the same as June 30, 2012 and December 31, 2011.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected (which is a function of the 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 (based on an average of the most recent three months) is assumed to continue until the end of the plateau before gradually increasing to the final CPR over the same period the CDR decreases. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant. The final CPR is assumed to be 10% for both HELOC and closed-end second lien transactions. This level is much higher than current rates for most transactions, but lower than the historical average, which reflects the Company’s continued uncertainty about the projected performance of the borrowers in these transactions. This pattern is consistent with how the Company modeled the CPR at June 30, 2012 and December 31, 2011. To the extent that prepayments differ from projected levels it could materially change the Company’s projected excess spread and losses.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices, and HELOC draw rates (the amount of new advances provided on existing HELOCs expressed as a percentage of current outstanding advances). For HELOC transactions, the draw rate is assumed to decline from the current level to a final draw rate over a period of three months. The final draw rates were assumed to range from 0.0% to .10%.

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

As of September 30, 2012, the Company’s base case assumed a one month CDR plateau and a 30 month ramp-down (for a total stress period of 36 months), the same as June 30, 2012 and December 31, 2011. The Company also modeled a scenario with a longer period of elevated defaults and another with a shorter period of elevated defaults and weighted them the same as of June 30, 2012 and December 31, 2011. The length of the ramp-downs the Company used as of September 30, 2012 and June 30, 2012 were three months shorter in the optimistic cases and three months longer in the pessimistic cases than the Company used as of December 31, 2011 reflecting both positive and negative developments observed by the Company in the market. Increasing the CDR plateau to four months and increasing the ramp-down by three months to 33-months (rather than 30 months as of December 31, 2011, for a total stress period of 42 months rather than 39 months as of December 31, 2011) would increase loss reserves by approximately \$8.3 million for HELOC transactions and \$0.6 million for closed-end second lien transactions. On the other hand, keeping the CDR plateau at one month but decreasing the length of the CDR ramp-down to a 21 months (rather than 24 months as of December 31, 2011, for a total stress period of 27 months rather than 30 months as of December 31, 2011) would decrease loss reserves by approximately 7.1 million for HELOC transactions and \$0.7 million for closed-end second lien transactions.

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

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

The performance of the Company’s first lien RMBS exposures began to deteriorate in 2007 and such transactions, 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

## NOTES TO FINANCIAL STATEMENTS

of underwriting. While insured securities benefited from structural protections within the transactions designed to absorb some of the collateral losses, in many first lien RMBS transactions, projected losses exceed those structural protections.

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are delinquent or in foreclosure or where the loan has been foreclosed and the RMBS issuer owns the underlying real estate). Changes in the amount of non-performing loans from the amount projected in the previous period are one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various delinquency categories. The Company arrived at its liquidation rates based on data purchased from a third party, and assumptions about how delays in the foreclosure process may ultimately affect the rate at which loans are liquidated. The liquidation rate is a standard industry measure that is used to estimate the number of loans in a given aging category that will default within a specified time period. The Company projects these liquidations to occur over two years. The Company used the same liquidation rates for September 30, 2012 as it did for June 30, 2012 and December 31, 2011. The following table shows liquidation assumptions for various delinquency categories.

### First Lien Liquidation Rates

	As of September 30, 2012	As of December 31, 2011
30 – 59 Days Delinquent		
Alt A and Prime.....	35%	35%
Option ARM.....	50	50
Subprime.....	30	30
60 – 89 Days Delinquent		
Alt A and Prime.....	55	55
Option ARM.....	65	65
Subprime.....	45	45
90+ Days Delinquent		
Alt A and Prime.....	65	65
Option ARM.....	75	75
Subprime.....	60	60
Bankruptcy		
Alt A and Prime.....	55	55
Option ARM.....	70	70
Subprime.....	50	50
Foreclosure		
Alt A and Prime.....	85	85
Option ARM.....	85	85
Subprime.....	80	80
Real Estate Owned ("REO")		
All	100	100

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

In the base case, after the initial 24-month CDR plateau period, each transaction's CDR is projected to improve over 12 months to an intermediate CDR (calculated as 20% of its CDR plateau); that intermediate CDR is held constant for 36 months and then trails off in steps to a final CDR of 5% of the CDR plateau. Under the Company's methodology, defaults projected to occur in the first 24 months represent defaults that can be attributed to loans that are currently delinquent or in foreclosure, while the defaults projected to 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 historic high levels, and the Company is assuming that these high levels generally will continue for another year (in the case of subprime loans, the Company assumes the unprecedented 90% loss severity rate will continue for six months then drop to 80% for six months before following the ramp described below). The Company determines its initial loss severity based on actual recent experience. The Company's loss severity assumptions for September 30, 2012 were the same as it used for June 30, 2012 and December 31, 2011. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning in June 2013, and in the base case scenario, decline over two years to 40%.

The following table shows the range of key assumptions for the calculation of loss reserves for individual transactions for direct vintage 2004 - 2008 first lien U.S. RMBS.

### Key Assumptions in Base Case Loss Reserve Estimates First Lien RMBS (1)

	As of September 30, 2012	As of December 31, 2011
<b>Alt-A First Lien</b>		
Plateau CDR.....	3.5% – 21.5%	2.8% – 21.7%
Intermediate CDR.....	0.7% – 4.3%	0.6% – 9.3%
Final CDR.....	0.2% – 1.1%	0.1% – 1.1%
Initial loss severity.....	65%	65%
Initial CPR.....	1.2% – 31.9%	1.1% – 37.5%
Final CPR.....	15%	15%
<b>Option ARM</b>		
Plateau CDR.....	6.3% – 25.2%	9.6% – 26.4%
Intermediate CDR.....	1.3% – 5.0%	1.9% – 5.3%
Final CDR.....	0.3% – 1.3%	0.5% – 1.3%
Initial loss severity.....	65%	65%
Initial CPR.....	0.0% – 14.2%	0.0% – 29.1%
Final CPR.....	15%	15%
<b>Subprime</b>		
Plateau CDR.....	7.5% – 23.2%	8.4% – 25.4%
Intermediate CDR.....	1.5% – 4.6%	1.7% – 5.1%
Final CDR.....	0.4% – 1.2%	0.4% – 1.3%
Initial loss severity.....	90%	90%
Initial CPR.....	0.0% – 9.6%	0.0% – 16.3%
Final CPR.....	15%	15%

## NOTES TO FINANCIAL STATEMENTS

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

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected (since that amount is a function of the conditional default rate, the loss severity 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 conditional default rate. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be either 10% or 15% depending on the scenario run. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant.

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

In estimating loss reserves, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast a recovery is expected to occur. One of the variables used to model sensitivities was how quickly the conditional default rate returned to its modeled equilibrium, which was defined as 5% of the current conditional default rate. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios (including its base case) as of September 30, 2012, the same number of scenarios as June 30, 2012 and December 31, 2011. For September 30, 2012 the Company used the same scenarios and weightings as it has for June 30, 2012, which were also the same as it used for December 31, 2011 except that for September 30, 2012 and June 30, 2012 it assumed in the most stressful scenario that the recovery would occur three months more slowly and in the most optimistic scenario that it would occur three months more quickly than it had for December 31, 2011. In a somewhat more stressful environment than that of the base case, where the conditional default rate plateau was extended three months (to be 27 months long) before the same more gradual conditional default rate recovery and loss severities were assumed to recover over four rather than two years (and subprime loss severities were assumed to recover only to 60%), loss reserves would increase from current projections by approximately \$44.1 million for Alt-A first liens, \$4.3 million for Option ARM, \$16.4 million for subprime and \$2.2 million for prime transactions. In an even more stressful scenario where loss severities were assumed to rise and then recover over eight years and the initial ramp-down of the conditional default rate was assumed to occur over 15 months (rather than 12 months as of December 31, 2011) and other assumptions were the same as the other stress scenario, loss reserves would increase from current projections by approximately \$122.2 million for Alt-A first liens, \$19.7 million for Option ARM, \$27.0 million for subprime and \$11.2 million for prime transactions. The Company also considered two scenarios where the recovery was faster than in its base case. In a scenario with a somewhat less stressful environment than the base case, where conditional default rate recovery was somewhat less gradual and the initial subprime loss severity rate was assumed to be 80% for 12 months and was assumed to recover to 40% over two years, loss reserves would decrease from current projections by approximately \$3.3 million for Alt-A first lien, \$0.9 million for Option ARM, \$5.2 million for subprime and \$0.4 million for prime transactions. In an even less stressful scenario where the conditional default rate plateau was three months shorter (21 months, effectively assuming that liquidation rates would improve) and the conditional default rate recovery was more pronounced, (including an initial ramp-down of the conditional default rate over nine months rather than 12 months as at December 31, 2011), loss reserves would decrease from current projections by approximately \$25.1 million for Alt-A first lien, \$5.0 million for Option ARM, \$14.4 million for subprime and \$1.4 million for prime transactions.

### Breaches of Representations and Warranties

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

The Company has included in its net loss reserves as of September 30, 2012 an estimated benefit from loan repurchases related to breaches of R&W of \$306 million, which includes \$174 million from Bank of America and Deutsche Bank under their respective agreements and \$132 million in transactions where the Company does not yet have such an agreement. Proceeds projected to be reimbursed to the Company on transactions where the Company has already paid claims are viewed as a recovery on paid losses. For transactions where the Company has not already paid claims, projected recoveries reduce projected loss estimates. In either case, projected recoveries have no effect on the amount of the Company's exposure. These amounts reflect payments made pursuant to the negotiated transaction agreements and not payments made pursuant to legal settlements. See "Recovery Litigation" in Note 14 for a description of the related legal proceedings the Company has commenced.

The Company's success in pursuing breaches of R&W is based upon a detailed review of loan files. The Company reviewed approximately 13,100 second lien and 800 first lien loan files (representing approximately \$967 million and \$313 million, respectively, of loans) in financial guaranty transactions as to which it eventually reached agreements, including the agreements with Bank of America and Deutsche Bank. For the RMBS transactions as to which the Company had not settled its claims for breaches of R&W as of September 30, 2012, the Company had performed a detailed review of approximately 900 second lien and 7,300 first lien loan files, representing approximately \$62 million in second lien and \$2,379 million in first lien outstanding par of loans underlying insured transactions. In the majority of its loan file reviews, the Company identified breaches of one or more R&W regarding the characteristics of the loans, such as misrepresentation of income or employment of the borrower, occupancy, undisclosed debt and non-compliance with underwriting guidelines at loan origination.

Through September 30, 2012, the Company has caused entities providing R&Ws to pay or agree to pay approximately \$553 million in respect of their R&W liabilities for transactions in which the Company has provided a financial guaranty. Of this, \$413 million are payments made or to be made directly to the Company pursuant to agreements with R&W providers (e.g. the Bank of America Agreement and Deutsche Bank Agreement) and approximately \$140 million are amounts paid (or committed to be paid) into the relevant RMBS financial guaranty transactions pursuant to the transaction documents.

The \$413 million of payments made or to be made directly to the Company by R&W providers under agreements with the Company includes \$230 million that has already been received by the Company, as well as \$176 million the Company projects receiving in the future pursuant to such currently existing agreements. Because most of that \$176 million is projected to be received through loss-sharing arrangements, the exact amount the Company will receive will depend on actual losses experienced by the covered transactions. This amount is included in the Company's calculated credit for R&W recoveries, described below.

The \$140 million paid, or committed to be paid, by R&W providers are paid into the relevant RMBS transactions in accordance with the priority of payments set out in the relevant transaction documents. Because the Company may insure only a portion of the capital structure of a transaction, such payments will not necessarily directly benefit the Company dollar-for-dollar, especially in first lien transactions. However, such payments do reduce collateral pool losses and so usually reduce the Company's loss reserves.

The calculation of expected recovery from breaches of R&W involved a variety of scenarios which ranged from the Company recovering substantially all of the losses it incurred due to violations of R&W to the Company realizing limited recoveries. These scenarios were probability weighted in order to determine the recovery incorporated into the Company's estimate of loss reserves. This approach was used for both loans that had already defaulted and those assumed to default in the future.

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

As of September 30, 2012, cumulative collateral losses on Assured Guaranty's 21 first lien RMBS transactions (of which nine are insured by AGC) subject to a comprehensive agreement with Bank of America Corporation and its subsidiaries, including Countrywide Financial Corporation and its subsidiaries (collectively, "Bank of America") (the "Bank of America Agreement"), were approximately \$2.6 billion (\$0.2 billion

## NOTES TO FINANCIAL STATEMENTS

related to AGC). Assured Guaranty estimates that cumulative projected collateral losses for these 21 first lien transactions will be \$5.1 billion (\$444.1 million related to AGC). The Bank of America Agreement covers cumulative collateral losses up to \$6.6 billion for all these transactions. Bank of America had placed approximately \$1.0 billion of eligible assets in trust in order to collateralize the reimbursement obligation relating to these transactions. The amount of assets required to be posted may increase or decrease from time to time as determined by rating agency requirements. Based on Assured Guaranty's assumptions, Assured Guaranty projects a recovery of approximately \$368.8 million (\$89.0 million from AGC) from Bank of America under the Bank of America Agreement.

On May 8, 2012, Assured Guaranty reached a settlement with Deutsche Bank, resolving claims related to certain RMBS transactions issued, underwritten or sponsored by Deutsche Bank that were insured by Assured Guaranty under financial guaranty insurance policies.

Assured Guaranty received a cash payment of \$166 million from Deutsche Bank upon signing of the Deutsche Bank Agreement, a portion of which partially reimbursed Assured Guaranty for past losses on certain transactions. Assured Guaranty and Deutsche Bank also entered into loss sharing arrangements covering future RMBS related losses, which are described below. Under the Deutsche Bank Agreement, Deutsche Bank AG placed eligible assets in trust in order to collateralize the obligations of a reinsurance affiliate under the loss-sharing arrangements. The Deutsche Bank reinsurance affiliate may be required to post additional collateral in the future to satisfy rating agency requirements. As of September 30, 2012, the balance of the assets held in trust of \$282 million was sufficient to fully collateralize Deutsche Bank's obligations, based on the Company's estimate of loss reserves for the transactions covered under the agreement.

The settlement includes eight RMBS transactions ("Covered Transactions") that Assured Guaranty has insured through financial guaranty insurance policies, of which two are insured by AGC. The Covered Transactions are backed by first lien and second lien mortgage loans. Under the Deutsche Bank Agreement, the Deutsche Bank reinsurance affiliate will reimburse 80% of Assured Guaranty's future losses on the Covered Transactions until Assured Guaranty's aggregate losses (including those to date that are partially reimbursed by the \$166 million cash payment) reach \$319 million. Assured Guaranty currently projects that in the base case, the Covered Transactions will not generate aggregate losses in excess of \$319 million. In the event aggregate losses exceed \$389 million, the Deutsche Bank reinsurance affiliate is required to resume reimbursement at the rate of 85% of Assured Guaranty's losses in excess of \$389 million until such losses reach \$600 million. The Covered Transactions represented \$99 million of the Company's gross par outstanding as of September 30, 2012.

Certain uninsured tranches ("Uninsured Tranches") of three of the Covered Transactions are included as collateral in RMBS re-securitization transactions. Under the Deutsche Bank Agreement, the Deutsche Bank reinsurance affiliate will reimburse losses in an amount equal to 60% of losses in these Uninsured Tranches until the aggregate losses in the Uninsured Tranches reach \$141 million. In the event aggregate losses exceed \$161 million, reimbursement resumes at the rate of 60% until the aggregate losses reach \$185 million. The Deutsche Bank reinsurance affiliate is required to reimburse any losses in excess of \$185 million at the rate of 100% until the aggregate losses reach \$248 million. The Uninsured Tranches represent \$317 million of gross par outstanding as of September 30, 2012. As of September 30, 2012, lifetime losses in the base case are expected to exceed \$141 million (on a discounted basis).

### ***Trust Preferred Securities Collateralized Debt Obligations***

The Company has insured or reinsured \$4.3 billion of net par of collateralized debt obligations ("CDOs") backed by TruPS and similar debt instruments, or "TruPS CDOs." Of that amount, \$2.3 million is rated below investment grade ("BIG"). The underlying collateral in the TruPS CDOs consists of subordinated debt instruments such as TruPS issued by bank holding companies and similar instruments issued by insurance companies, real estate investment trusts ("REITs") and other real estate related issuers.

The Company projects losses for TruPS CDOs by projecting the performance of the asset pools across several scenarios (which it weights) and applying the CDO structures to the resulting cash flows. At September 30, 2012, the Company has loss reserves for TruPS CDOs of \$18.3 million. The increase of approximately \$1.3 million in loss reserves during the third quarter 2012 was driven primarily by changes in London Interbank Offered Rate ("LIBOR").

### **"XXX" Life Insurance Transactions**

The Company's \$526 million net par of XXX life insurance transactions as of September 30, 2012 includes \$208 million rated BIG. The BIG "XXX" life insurance reserve securitizations are based on discrete blocks of individual life insurance business. In each such transaction the monies raised by the sale of the bonds insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The monies are invested at inception in accounts managed by third-party investment managers.

The BIG "XXX" life insurance transactions consist of two transactions: Ballantyne Re p.l.c and Orkney Re II p.l.c. These transactions had material amounts of their assets invested in U.S. RMBS transactions. Based on its analysis of the information currently available, including estimates of future investment performance, and projected credit impairments on the invested assets and performance of the blocks of life insurance business at September 30, 2012, the Company's loss reserves are \$9.7 million.

### ***U.S. Public Finance Transactions***

U.S. municipalities and related entities have been under increasing pressure over the last few quarters, and a few have filed for protection under the U.S. Bankruptcy Code, entered into state processes designed to help municipalities in fiscal distress or otherwise indicated they may consider not meeting their obligations to make timely payments on their debts. The Company expects that bondholder rights will be enforced. However, due to the early stage of these developments, and the circumstances surrounding each instance, the ultimate outcome cannot be certain. The Company will continue to analyze developments in each of these matters closely. The municipalities whose obligations the Company has insured that have filed for protection under Chapter 9 of the U.S. Bankruptcy Code are: Jefferson County, Alabama and Stockton, California. The City Council of Harrisburg, Pennsylvania had also filed a purported bankruptcy petition, which was later dismissed by the bankruptcy court; a receiver for the City of Harrisburg was appointed by the Commonwealth Court of Pennsylvania on December 2, 2011.

The Company has net exposure to Jefferson County, Alabama of \$184 million as of September 30, 2012. On November 9, 2011, Jefferson County filed for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code. Most of the Company's net Jefferson County exposure relates to \$183 million in sewer revenue exposure. The sewer revenue warrants are secured by a pledge of the net revenues of the sewer system. The bankruptcy court has affirmed that the net revenues constitute a "special revenue" under Chapter 9. Therefore, the lien on net revenues of the sewer system survives the bankruptcy filing and such net revenues are not subject to the automatic stay during the pendency of Jefferson County's bankruptcy case. BNY Mellon, as trustee, had brought a lawsuit regarding the amount of net revenues to which it is entitled. Since its bankruptcy filing, Jefferson County had been withholding estimated bankruptcy-related legal expenses and an amount representing a monthly reserve for future expenditures and depreciation and amortization from the monthly payments it had been making to the trustee from sewer revenues for debt service. On June 29, 2012, the Bankruptcy Court ruled that "Operating Expenses" as determined under the bond indenture do not include (1) a reserve for depreciation, amortization, or future expenditures, or (2) an estimate for professional fees and expenses, such that, after payment of Operating Expenses (as defined in the indenture), monies remaining in the Revenue Account created under the bond indenture must be distributed in accordance with the waterfall set forth in the indenture without withholding any monies for depreciation, amortization, reserves, or estimated expenditures that are the subject of this litigation. Whether sufficient net revenues will be available for the payment of regularly scheduled debt service ultimately depends on the bankruptcy court's valuation of the sewer revenue stream. The Company's remaining net exposure of \$1 million to Jefferson County relates to warrants that are payable from collateral.

On June 28, 2012, the City of Stockton, California filed for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code. The Company's net exposure to Stockton's general fund is \$34 million, consisting of lease revenue bonds. As of September 30, 2012, the Company had paid \$3.8 million in net claims.

The Company has \$8 million of net par exposure to The City of Harrisburg, Pennsylvania, all of which is BIG. The Company has paid \$0.6 million in net claims as of September 30, 2012, and expects a full recovery.

## NOTES TO FINANCIAL STATEMENTS

The Company has \$249 million net par exposure to the Louisville Arena Authority. The bond proceeds were used to construct the KFC Yum Center, home to the University of Louisville men's and women's basketball teams. Actual revenues available for debt service are well below original projections, and under the Company's internal rating scale, the transaction is below investment grade. At September 30, 2012, the Company has loss reserves of \$4.9 million on this transaction.

The Company has no remaining net par exposure to bonds secured by the excess free cash flow of the Foxwoods Casino, run by the Mashantucket Pequot Tribe. The Company had paid \$2.6 million in net claims as of September 30, 2012, and expects a full recovery of such amount.

The Company projects that its total loss reserves from troubled U.S. public finance credits will be \$23.4 million as of September 30, 2012, up from \$21.3 million as of June 30, 2012. This increase was due primarily to the reserves established for the Louisville Arena Authority.

The Company insures or reinsures a total of \$79 million net par of securities backed by manufactured housing loans, a total of \$76 million rated BIG. The Company has loss reserves of \$8.2 million as of September 30, 2012 compared to \$0.2 million as of June 30, 2012.

The Company also has outstanding exposures to certain infrastructure transactions in its insured portfolio that may expose it to refinancing risk. These transactions generally involve long-term infrastructure projects that are financed by bonds that mature prior to the expiration of the project concession. While the cash flows from these projects were expected to be sufficient to repay all of the debt over the life of the project concession, in order to pay the principal on the early maturing debt, the Company expected it to be refinanced in the market at or prior to its maturity. Due to market dislocation and increased credit spreads, the Company may have to pay a claim at the maturity of the securities, and then recover its payment from cash flows produced by the project in the future. The Company generally projects that in most scenarios it will be fully reimbursed for such payments.

The following summarizes U.S. subprime loss activity:

- The aggregate amount of U.S. subprime related net losses paid in the first nine months of 2012 were \$6,891,037;
- The aggregate amount of U.S. subprime related net losses incurred in the first nine months of 2012 was \$5,451,671;
- The aggregate amount of U.S. subprime related net case reserves at the end of the current reporting period were \$55,448,504, and
- The Company does not establish IBNR reserves.

### 22. Events Subsequent

Subsequent events have been considered through November 14, 2012 for these statutory financial statements which are to be issued November 14, 2012. There were no material events occurring subsequent to September 30, 2012 that have not already been disclosed in these notes to the financial statements.

### 23. Reinsurance

Reinsurance Assumed and Ceded

The following table summarizes ceded and assumed unearned premiums and the related commission equity at September 30, 2012.

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Premium	Commission	Premium	Commission	Premium	Commission
	Reserve	Equity	Reserve	Equity	Reserve	Equity
Affiliates	\$ 21,074,511	\$8,429,805	\$285,122,385	\$76,758,128	\$(264,047,874)	\$(68,328,323)
Non Affiliates	117,245,066	28,149,008	11,141,369	3,473,040	(106,103,697)	(24,675,968)
Total	\$138,319,577	\$36,578,812	\$296,263,754	\$80,231,168	\$(157,944,177)	\$(43,652,356)

Direct Unearned Premium Reserve \$947,555,195

### 24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

There has been no change since the 2011 Annual Statement.

### 25. Changes in Incurred Losses and Loss Adjustment Expenses ("LAE")

Incurred losses and LAE attributable to insured events of prior years were \$44,835,438 for the first nine months of 2012. The current year increase is a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

### 26. Intercompany Pooling Arrangements

There has been no change since the 2011 Annual Statement.

### 27. Structured Settlements

There has been no change since the 2011 Annual Statement.

### 28. Health Care Receivables

There has been no change since the 2011 Annual Statement.

### 29. Participating Policies

There has been no change since the 2011 Annual Statement.

### 30. Premium Deficiency Reserves

There has been no change since the 2011 Annual Statement.

### 31. High Deductibles

There has been no change since the 2011 Annual Statement.

### 32. Discounting of Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses

The net loss and LAE reserves of \$351,826,361 are discounted at a rate of 5.0%, the approximate taxable equivalent yield on the Company's investment portfolio, amounting to a total discount taken of \$168,215,419.

### 33. Asbestos/Environmental Reserves

There has been no change since the 2011 Annual Statement.

### 34. Subscriber savings Accounts

There has been no change since the 2011 Annual Statement.

### 35. Multiple Peril Crop Insurance

There has been no change since the 2011 Annual Statement.

## NOTES TO FINANCIAL STATEMENTS

**36. Financial Guaranty Insurance**

A. There has been no significant change since the 2011 Annual Statement.

B. Schedule of insured financial obligations as of September 30, 2012:

<i>Dollars in thousands</i>	Surveillance Categories			Total
	BIG 1	BIG 2	BIG 3	
Number of risks	100	88	75	263
Remaining weighted-average contract period (in years)	14.1	6.6	11.4	10.9
Insured contractual payments outstanding:				
Principal	\$3,980,653	\$3,574,999	\$4,296,506	\$11,852,158
Interest	<u>1,291,525</u>	<u>717,427</u>	<u>930,411</u>	<u>2,939,363</u>
Total	<u>\$5,272,179</u>	<u>\$4,292,426</u>	<u>\$5,226,917</u>	<u>\$14,791,521</u>
Gross claim liability	\$ (477)	\$528,690	\$1,378,132	\$1,906,345
Less: Gross potential recoveries - subrogation	11,717	222,289	842,145	1,076,151
Ceded claim liability	(1,369)	51,252	260,270	310,153
Discount, net	(1,066)	78,472	90,809	168,215
Net liability reported in the balance sheet	<u>\$(9,759)</u>	<u>\$176,677</u>	<u>\$ 184,908</u>	<u>\$ 351,826</u>
Reinsurance recoverables	\$4	\$211	\$10,982	\$11,197
Unearned premium reserve	\$10,459	\$11,317	\$16,908	\$38,684

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? ..... Yes  No
- 1.2 If yes, has the report been filed with the domiciliary state? ..... Yes  No
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes  No
- 2.2 If yes, date of change: .....
3. Have there been any substantial changes in the organizational chart since the prior quarter end? ..... Yes  No   
If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes  No
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? ..... Yes  No  NA   
If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. .... 12/31/2011
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .... 12/31/2006
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). .... 04/30/2008
- 6.4 By what department or departments?  
Maryland Insurance Administration.....
- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? ..... Yes  No  NA
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? ..... Yes  No  NA
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? ..... Yes  No
- 7.2 If yes, give full information:  
.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?..... Yes  No
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.  
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms?..... Yes  No
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 FDIC	6 SEC

## GENERAL INTERROGATORIES

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? ..... Yes  No
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;  
 (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;  
 (c) Compliance with applicable governmental laws, rules and regulations;  
 (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and  
 (e) Accountability for adherence to the code.

9.11 If the response to 9.1 is No, please explain:  
 .....

- 9.2 Has the code of ethics for senior managers been amended? ..... Yes  No

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).  
 .....

- 9.3 Have any provisions of the code of ethics been waived for any of the specified officers? ..... Yes  No

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).  
 .....

### FINANCIAL

- 10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? ..... Yes  No

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: ..... \$ .....51,500

### INVESTMENT

- 11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) ..... Yes  No

11.2 If yes, give full and complete information relating thereto:  
 .....

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: ..... \$ .....

13. Amount of real estate and mortgages held in short-term investments: ..... \$ .....

- 14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? ..... Yes  No

14.2 If yes, please complete the following:

	1 Prior Year-End Book/Adjusted Carrying Value	2 Current Quarter Book/Adjusted Carrying Value
14.21 Bonds .....	\$ .....	\$ .....
14.22 Preferred Stock .....	\$ .....	\$ .....
14.23 Common Stock .....	\$ .....122,347,875	\$ .....129,691,133
14.24 Short-Term Investments .....	\$ .....	\$ .....
14.25 Mortgage Loans on Real Estate .....	\$ .....	\$ .....
14.26 All Other .....	\$ .....	\$ .....
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$ .....122,347,875	\$ .....129,691,133
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above .....	\$ .....	\$ .....

- 15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? ..... Yes  No

- 15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? ..... Yes  No

If no, attach a description with this statement.

## GENERAL INTERROGATORIES

16. Excluding items in Schedule E – Part 3 – Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III – General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC *Financial Condition Examiners Handbook*?

Yes  No

16.1 For all agreements that comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, complete the following:

1 Name of Custodian(s)	2 Custodian Address
The Bank of New York Mellon.....	One Wall Street, New York, NY 10286.....
M&T Trust.....	25 South Charles Street, Baltimore, MD 21201.....
State Street Bank.....	One Lincoln Street, Boston, MA 02111.....

16.2 For all agreements that do not comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? .....

Yes  No

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
801-48433.....	Blackrock Financial Management, Inc.....	40 East 52nd St., New York, NY 10022.....
104-518.....	Deutsche Investment Management Americas, Inc.....	345 Park Ave., New York, NY 10154.....
105-900.....	General Re-New England Asset Management, Inc.....	76 Batterson Park Road, Farmington, CT 06032.....
106-595.....	Wellington Management Company LLP.....	75 State Street, Boston, MA 02109.....

17.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed? .....

Yes  No

17.2 If no, list exceptions:

.....





STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

**SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN**

Current Year to Date - Allocated by States and Territories

States, etc.	1 Active Status	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2 Current Year To Date	3 Prior Year To Date	4 Current Year To Date	5 Prior Year To Date	6 Current Year To Date	7 Prior Year To Date
1. Alabama	AL	L	159,034	256,999		0	0
2. Alaska	AK	L		0		0	0
3. Arizona	AZ	L		0		0	0
4. Arkansas	AR	L	598,557	700,039	(44,680,878)	6,378,046	1,498,092
5. California	CA	L	220,205	346,904	3,860,571		4,816,590
6. Colorado	CO	L		0		0	0
7. Connecticut	CT	L		1,187,500		0	0
8. Delaware	DE	L	2,463,644	707,116	(25,622,276)	21,874,296	5,937,039
9. District of Columbia	DC	L		0		0	0
10. Florida	FL	L		185,845		0	0
11. Georgia	GA	L		0		0	0
12. Hawaii	HI	L		0		0	0
13. Idaho	ID	L		0		0	0
14. Illinois	IL	L	1,201,774	2,928,717		0	777,179
15. Indiana	IN	L		0		0	0
16. Iowa	IA	L		0		0	0
17. Kansas	KS	L		0		0	0
18. Kentucky	KY	L		0		0	6,792,206
19. Louisiana	LA	L		50,000		0	0
20. Maine	ME	L	256,373	265,173		0	0
21. Maryland	MD	L	2,617,404	4,897,622		(534,233)	1,430,047
22. Massachusetts	MA	L	331,954	353,084	350,932		5,285,729
23. Michigan	MI	L		0		0	0
24. Minnesota	MN	L	3,730,074	3,332,154		0	0
25. Mississippi	MS	L		27,495		0	0
26. Missouri	MO	L		0		0	0
27. Montana	MT	L		0		0	0
28. Nebraska	NE	L		0		0	0
29. Nevada	NV	L		0		0	0
30. New Hampshire	NH	L		0		0	0
31. New Jersey	NJ	L	278,951	375,907		0	0
32. New Mexico	NM	L		0		0	0
33. New York	NY	L	62,419,774	79,543,907	133,805,254	(90,053,170)	349,896,074
34. North Carolina	NC	L	139,435	229,817		0	466,018,974
35. North Dakota	ND	L		0		0	0
36. Ohio	OH	L		69,298		0	0
37. Oklahoma	OK	L		0		0	0
38. Oregon	OR	L	11,491	0		0	0
39. Pennsylvania	PA	L		124,224		0	0
40. Rhode Island	RI	L		0		0	0
41. South Carolina	SC	L		0		0	0
42. South Dakota	SD	L		0		0	0
43. Tennessee	TN	L		0		0	0
44. Texas	TX	L	261,567	721,859		0	0
45. Utah	UT	L		0		0	0
46. Vermont	VT	L	761,979	761,979		0	0
47. Virginia	VA	L		0		0	0
48. Washington	WA	L		0		0	0
49. West Virginia	WV	L		0		0	0
50. Wisconsin	WI	L		0		0	0
51. Wyoming	WY	L		0		0	0
52. American Samoa	AS	N		0		0	0
53. Guam	GU	N		0		0	0
54. Puerto Rico	PR	L		0		0	0
55. U.S. Virgin Islands	VI	N		0		0	0
56. Northern Mariana Islands	MP	N		0		0	0
57. Canada	CN	N		0		0	0
58. Aggregate Other Alien	OT	XXX	0	0	0	0	0
59. Totals	(a) 52		75,452,216	97,065,638	67,713,603	(62,335,061)	376,432,956
<b>DETAILS OF WRITE-INS</b>							
5801.		XXX					
5802.		XXX					
5803.		XXX					
5898. Summary of remaining write-ins for Line 58 from overflow page.		XXX	0	0	0	0	0
5899. TOTALS (Lines 5801 through 5803 plus 5898) (Line 58 above)		XXX	0	0	0	0	0

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

(a) Insert the number of L responses except for Canada and Other Alien.

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
**PART 1 - ORGANIZATIONAL CHART**

There are no substantial changes to the Organizational Chart since the prior quarter.

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

**SCHEDULE Y**  
**PART 1A – DETAIL OF INSURANCE HOLDING COMPANY SYSTEM**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Group Code	Group Name	NAIC Company Code	Federal ID Number	Federal RSSD	CIK	Name of Securities Exchange if Publicly Traded (U.S. or International)	Name of Parent Subsidiaries or Affiliates	Domiciliary Location	Relationship to Reporting Entity	Directly Controlled by (Name of Entity/Person)	Type of Control (Ownership, Board, Management, Attorney-in-Fact, Influence, Other)	If Control is Ownership Provide Percentage	Ultimate Controlling Entity(ies)/ Person(s)	*
00194	Assured Guaranty Ltd				0001273813	NYSE	Assured Guaranty Ltd	BM	UDP				Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						AG Corporate Holdings LLC	DE	DS	Assured Guaranty Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		20-1082002		0001289244		Assured Guaranty US Holdings Inc	DE	DS	AG Corporate Holdings LLC	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd	01945	13-3261323		0000913357		Assured Guaranty Municipal Holdings Inc	NY	DS	Assured Guaranty US Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd	18287	13-3250292				Assured Guaranty Municipal Corp	NY	DS	Assured Guaranty Municipal Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FSA Portfolio Management Inc	NY	DS	Assured Guaranty Municipal Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Transaction Services Corporation	NY	DS	Assured Guaranty Municipal Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd	10843	13-3954813				Assured Guaranty Municipal Insurance Co	NY	DS	Assured Guaranty Municipal Corp	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		98-0223300				Assured Guaranty (Bermuda) Ltd	BM	DS	Assured Guaranty Municipal Insurance Co	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		AA-2510099				Assured Guaranty (Europe) Ltd	GB	DS	Assured Guaranty Municipal Insurance Co	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Assured Guaranty Credit Protection (Cayman) Ltd. (Cayman Islands)	CI	DS	Assured Guaranty (Europe) Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		AA-3190809				Assured Guaranty Re Ltd	BM	DS	Assured Guaranty Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Assured Guaranty Finance Overseas Ltd	GB	DS	Assured Guaranty Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		52-2221232				Assured Guaranty Overseas US Holdings Inc	DE	DS	Assured Guaranty Re Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		AA-3190538				Assured Guaranty Re Overseas Ltd	BM	DS	Assured Guaranty Re Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		06-1384770				Assured Guaranty Mortgage Insurance Company	NY	DS	Assured Guaranty Re Overseas Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						AG Intermediary Inc	NY	DS	Assured Guaranty Re Overseas Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		AA-1120078				Cedar Personnel Ltd. (Bermuda)	BM	DS	Assured Guaranty Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						AG Corporate Holdings LLC (DE)	DE	DS	Assured Guaranty Ltd	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Assured Guaranty US Holdings Inc	DE	DS	AG Corporate Holdings LLC	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd	13559	26-2999764				Municipal and Infrastructure Assurance Corporation	NY	DS	Assured Guaranty US Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						AG Analytics Inc	DE	DS	Assured Guaranty US Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Assured Guaranty (UK) Services Limited	GB	DS	Assured Guaranty US Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd	30180	52-1533088				Assured Guaranty Corp	MD	DS	Assured Guaranty US Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

**SCHEDULE Y**  
**PART 1A – DETAIL OF INSURANCE HOLDING COMPANY SYSTEM**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Group Code	Group Name	NAIC Company Code	Federal ID Number	Federal RSSD	CIK	Name of Securities Exchange if Publicly Traded (U.S. or International)	Name of Parent Subsidiaries or Affiliates	Domiciliary Location	Relationship to Reporting Entity	Directly Controlled by (Name of Entity/Person)	Type of Control (Ownership, Board, Management, Attorney-in-Fact, Influence, Other)	If Control is Ownership Provide Percentage	Ultimate Controlling Entity(ies)/ Person(s)	*
00194	Assured Guaranty Ltd		13-4031196				AG Financial Products Inc	DE	DS	Assured Guaranty US Holdings Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Prescott LLC	DE	DS	Assured Guranty Corp	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		AA-1120078				Assured Guaranty (UK) Ltd	GB	DS	Assured Guaranty Corp	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						AG PFC Holding LLC	DE	DS	Assured Guaranty Corp	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd		03-0575850				AGFP Holdings LLC	DE	DS	AG PFC Holding LLC	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Portfolio Funding Company LLC 1	DE	DS	AG PFC Holding LLC	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FSA Services (Japan) Inc	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FSA Credit Products 1 LLC	DE	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FSA Credit Products 2 LLC	DE	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Assured Guaranty Credit Protection Ltd	GB	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Assured Guaranty Services (Australia) Pty Ltd	AU	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FSA Administrative Services, LLC	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FSA Services (Americas) Inc	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						MLN 1992-2 Refi Co. LLC	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FMAC 1998-D Refi Co. LLC	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						FMAC 2000-A Refi Co. LLC	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						IMC 97-7 Refi Co. LLC	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	
00194	Assured Guaranty Ltd						Credit Protection Trusts	NY	DS	FSA Portfolio Management Inc	Ownership	100.0	Assured Guaranty Ltd	

12.1

Asterisk	Explanation
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**PART 1 - LOSS EXPERIENCE**

Line of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire			0.0	0.0
2. Allied lines			0.0	0.0
3. Farmowners multiple peril			0.0	0.0
4. Homeowners multiple peril			0.0	0.0
5. Commercial multiple peril			0.0	0.0
6. Mortgage guaranty			0.0	0.0
8. Ocean marine			0.0	0.0
9. Inland marine			0.0	0.0
10. Financial guaranty	118,050,466	67,333,964	57.0	(54.2)
11.1 Medical professional liability -occurrence			0.0	0.0
11.2 Medical professional liability -claims made			0.0	0.0
12. Earthquake			0.0	0.0
13. Group accident and health			0.0	0.0
14. Credit accident and health			0.0	0.0
15. Other accident and health			0.0	0.0
16. Workers' compensation			0.0	0.0
17.1 Other liability occurrence			0.0	0.0
17.2 Other liability-claims made			0.0	0.0
17.3 Excess Workers' Compensation			0.0	0.0
18.1 Products liability-occurrence			0.0	0.0
18.2 Products liability-claims made			0.0	0.0
19.1,19.2 Private passenger auto liability			0.0	0.0
19.3,19.4 Commercial auto liability			0.0	0.0
21. Auto physical damage			0.0	0.0
22. Aircraft (all perils)			0.0	0.0
23. Fidelity			0.0	0.0
24. Surety			0.0	0.0
26. Burglary and theft			0.0	0.0
27. Boiler and machinery			0.0	0.0
28. Credit			0.0	0.0
29. International			0.0	0.0
30. Warranty			0.0	0.0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0.0	0.0
35. TOTALS	118,050,466	67,333,964	57.0	(54.2)
<b>DETAILS OF WRITE-INS</b>				
3401.				
3402.				
3403.				
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0.0	0.0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	0.0	0.0

**PART 2 - DIRECT PREMIUMS WRITTEN**

Line of Business	1	2	3
	Current Quarter	Current Year to Date	Prior Year Year to Date
1. Fire	0		0
2. Allied lines	0		0
3. Farmowners multiple peril	0		0
4. Homeowners multiple peril	0		0
5. Commercial multiple peril	0		0
6. Mortgage guaranty	0		0
8. Ocean marine	0		0
9. Inland marine	0		0
10. Financial guaranty	24,725,524	75,452,216	97,065,638
11.1 Medical professional liability-occurrence	0		0
11.2 Medical professional liability-claims made	0		0
12. Earthquake	0		0
13. Group accident and health	0		0
14. Credit accident and health	0		0
15. Other accident and health	0		0
16. Workers' compensation	0		0
17.1 Other liability occurrence	0		0
17.2 Other liability-claims made	0		0
17.3 Excess Workers' Compensation	0		0
18.1 Products liability-occurrence	0		0
18.2 Products liability-claims made	0		0
19.1,19.2 Private passenger auto liability	0		0
19.3,19.4 Commercial auto liability	0		0
21. Auto physical damage	0		0
22. Aircraft (all perils)	0		0
23. Fidelity	0		0
24. Surety	0		0
26. Burglary and theft	0		0
27. Boiler and machinery	0		0
28. Credit	0		0
29. International	0		0
30. Warranty	0		0
31. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX
32. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX
33. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business	0	0	0
35. TOTALS	24,725,524	75,452,216	97,065,638
<b>DETAILS OF WRITE-INS</b>			
3401.			
3402.			
3403.			
3498. Sum. of remaining write-ins for Line 34 from overflow page	0	0	0
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)	0	0	0

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2012 Loss and LAE Payments on Claims Reported as of Prior Year-End	2012 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2012 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols.7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/ Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/ Deficiency (Cols. 11 + 12)
1. 2009 + Prior .....	330,773		330,773	43,146		43,146	299,161			299,161	11,534	0	11,534
2. 2010 .....	6,128		6,128	530		530	18,168			18,168	12,570	0	12,570
3. Subtotals 2010 + prior .....	336,901	0	336,901	43,676	0	43,676	317,329	0	0	317,329	24,104	0	24,104
4. 2011 .....	7,856		7,856	1,927		1,927	26,661			26,661	20,731	0	20,731
5. Subtotals 2011 + prior .....	344,758	0	344,758	45,603	0	45,603	343,990	0	0	343,990	44,835	0	44,835
6. 2012 .....	XXX	XXX	XXX	XXX	6,819	6,819	XXX	7,836		7,836	XXX	XXX	XXX
7. Totals .....	344,758	0	344,758	45,603	6,819	52,422	343,990	7,836	0	351,826	44,835	0	44,835
8. Prior Year-End Surplus As Regards Policy-holders	1,021,499										Col. 11, Line 7 As % of Col. 1, Line 7	Col. 12, Line 7 As % of Col. 2, Line 7	Col. 13, Line 7 As % of Col. 3, Line 7
											1. 13.0	2. 0.0	3. 13.0
													Col. 13, Line 7 Line 8
													4. 4.4

## SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES





The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of **NO** to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter **SEE EXPLANATION** and provide an explanation following the interrogatory questions.

	<u>Response</u>
1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement?	.....NO.....
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	.....NO.....
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	.....NO.....
4. Will the Director and Officer Supplement be filed with the state of domicile and the NAIC with this statement?	.....NO.....

**Explanation:**

- 1.
- 2.
- 3.
- 4.

**Bar Code:**

1.	 3 0 1 8 0 2 0 1 2 4 9 0 0 0 0 0 3
2.	 3 0 1 8 0 2 0 1 2 4 5 5 0 0 0 0 3
3.	 3 0 1 8 0 2 0 1 2 3 6 5 0 0 0 0 3
4.	 3 0 1 8 0 2 0 1 2 5 0 5 0 0 0 0 3

**OVERFLOW PAGE FOR WRITE-INS**

PQ002 Additional Aggregate Lines for Page 02 Line 25.

\*ASSETS

	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
2504. Miscellaneous Receivables.....	5,381,279	162,985	5,218,294	0
2505. Other receivables.....			0	0
2506. Rent receivable.....			0	6,863
2597. Summary of remaining write-ins for Line 25 from Page 02	5,381,279	162,985	5,218,294	6,863

PQ003 Additional Aggregate Lines for Page 03 Line 25.

\*LIAB

	1	2
	Current Statement Date	December 31, Prior Year
2504. Miscellaneous liability.....	412,905	3,344,821
2505. Direct losses payable.....		0
2597. Summary of remaining write-ins for Line 25 from Page 03	412,905	3,344,821

## SCHEDULE A – VERIFICATION

### Real Estate

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year .....	2,738,541	2,859,967
2. Cost of acquired:		
2.1 Actual cost at time of acquisition .....		0
2.2 Additional investment made after acquisition .....		0
3. Current year change in encumbrances .....		0
4. Total gain (loss) on disposals .....		0
5. Deduct amounts received on disposals .....		0
6. Total foreign exchange change in book/adjusted carrying value .....		0
7. Deduct current year's other than temporary impairment recognized .....		0
8. Deduct current year's depreciation .....	91,069	121,426
9. Book/adjusted carrying value at the end of current period (Lines 1+2+3+4-5+6-7-8) .....	2,647,472	2,738,541
10. Deduct total nonadmitted amounts .....	2,647,472	2,738,541
11. Statement value at end of current period (Line 9 minus Line 10) .....	0	0

## SCHEDULE B – VERIFICATION

### Mortgage Loans

	1 Year To Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year .....	0	0
2. Cost of acquired:		
2.1 Actual cost at time of acquisition .....		0
2.2 Additional investment made after acquisition .....		0
3. Capitalized deferred interest and other .....		0
4. Accrual of discount .....		0
5. Unrealized valuation increase (decrease) .....		0
6. Total gain (loss) on disposals .....		0
7. Deduct amounts received on disposals .....		0
8. Deduct amortization of premium and mortgage interest points and commitment fees .....		0
9. Total foreign exchange change in book value/recorded investment excluding accrued interest .....		0
10. Deduct current year's other than temporary impairment recognized .....		0
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10) .....	0	0
12. Total valuation allowance .....		0
13. Subtotal (Line 11 plus Line 12) .....	0	0
14. Deduct total nonadmitted amounts .....	0	0
15. Statement value at end of current period (Line 13 minus Line 14) .....	0	0

NONE

## SCHEDULE BA – VERIFICATION

### Other Long-Term Invested Assets

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year .....	38,322,527	43,413,528
2. Cost of acquired:		
2.1 Actual cost at time of acquisition .....		7,655,898
2.2 Additional investment made after acquisition .....		0
3. Capitalized deferred interest and other .....		0
4. Accrual of discount .....		0
5. Unrealized valuation increase (decrease) .....		0
6. Total gain (loss) on disposals .....		0
7. Deduct amounts received on disposals .....	903	12,746,899
8. Deduct amortization of premium and depreciation .....		0
9. Total foreign exchange change in book/adjusted carrying value .....		0
10. Deduct current year's other than temporary impairment recognized .....		0
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10) .....	38,321,624	38,322,527
12. Deduct total nonadmitted amounts .....	12,500,000	12,500,000
13. Statement value at end of current period (Line 11 minus Line 12) .....	25,821,624	25,822,527

## SCHEDULE D – VERIFICATION

### Bonds and Stocks

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year .....	2,649,063,159	2,483,155,371
2. Cost of bonds and stocks acquired .....	267,028,836	950,881,214
3. Accrual of discount .....	7,530,235	9,030,380
4. Unrealized valuation increase (decrease) .....	7,343,258	405,477
5. Total gain (loss) on disposals .....	3,001,210	4,280,049
6. Deduct consideration for bonds and stocks disposed of .....	292,865,069	779,248,038
7. Deduct amortization of premium .....	12,715,987	15,495,349
8. Total foreign exchange change in book/adjusted carrying value .....		0
9. Deduct current year's other than temporary impairment recognized .....	30,572,925	3,945,945
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9) .....	2,597,812,717	2,649,063,159
11. Deduct total nonadmitted amounts .....	748,923	0
12. Statement value at end of current period (Line 10 minus Line 11) .....	2,597,063,794	2,649,063,159

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

**SCHEDULE D - PART 1B**

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 (a).....	2,581,233,215	140,016,459	148,445,802	26,919,740	2,564,233,239	2,581,233,215	2,599,723,612	2,633,906,210
2. Class 2 (a).....	10,858,665			(10,101,728)	10,865,604	10,858,665	756,937	30,924,293
3. Class 3 (a).....	19,497,095		165,716	(19,331,379)	19,696,567	19,497,095	0	0
4. Class 4 (a).....	0				0	0	0	0
5. Class 5 (a).....	0				0	0	0	0
6. Class 6 (a).....	0	50,400	51,567	1,167	0	0	0	0
7. Total Bonds	2,611,588,975	140,066,859	148,663,085	(2,512,200)	2,594,795,410	2,611,588,975	2,600,480,549	2,664,830,503
<b>PREFERRED STOCK</b>								
8. Class 1.....	0				0	0	0	0
9. Class 2.....	0				0	0	0	0
10. Class 3.....	0				0	0	0	0
11. Class 4.....	0				0	0	0	0
12. Class 5.....	0				0	0	0	0
13. Class 6.....	0				0	0	0	0
14. Total Preferred Stock.....	0	0	0	0	0	0	0	0
15. Total Bonds & Preferred Stock	2,611,588,975	140,066,859	148,663,085	(2,512,200)	2,594,795,410	2,611,588,975	2,600,480,549	2,664,830,503

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 \$ .....81,690,301 ; NAIC 2 \$ ..... ;  
NAIC 3 \$ ..... ; NAIC 4 \$ ..... ; NAIC 5 \$ ..... ; NAIC 6 \$ .....

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**SCHEDULE DA - PART 1**

## Short-Term Investments

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
9199999	67,029,332	XXX	67,013,911	10,863	

**SCHEDULE DA - VERIFICATION**

## Short-Term Investments

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	94,638,061	97,257,705
2. Cost of short-term investments acquired .....	185,676,576	137,956,098
3. Accrual of discount .....	56,597	37,546
4. Unrealized valuation increase (decrease).....		0
5. Total gain (loss) on disposals .....	1,920	1,014
6. Deduct consideration received on disposals .....	213,343,821	140,605,039
7. Deduct amortization of premium.....		9,263
8. Total foreign exchange change in book/adjusted carrying value.....		0
9. Deduct current year's other than temporary impairment recognized.....		0
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	67,029,333	94,638,061
11. Deduct total nonadmitted amounts.....		0
12. Statement value at end of current period (Line 10 minus Line 11)	67,029,333	94,638,061

Schedule DB - Part A - Verification

**NONE**

Schedule DB - Part B - Verification

**NONE**

Schedule DB - Part C - Section 1

**NONE**

Schedule DB - Part C - Section 2

**NONE**

Schedule DB - Verification

**NONE**

**SCHEDULE E - VERIFICATION**

(Cash Equivalents)

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	47,481,441	125,432,915
2. Cost of cash equivalents acquired .....	27,930,696	469,436,355
3. Accrual of discount .....	259	22,315
4. Unrealized valuation increase (decrease) .....		0
5. Total gain (loss) on disposals.....	(152)	595
6. Deduct consideration received on disposals .....	10,082,608	547,410,739
7. Deduct amortization of premium .....		0
8. Total foreign exchange change in book/adjusted carrying value .....		0
9. Deduct current year's other than temporary impairment recognized .....		0
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9) .....	65,329,636	47,481,441
11. Deduct total nonadmitted amounts .....		0
12. Statement value at end of current period (Line 10 minus Line 11)	65,329,636	47,481,441

Schedule A - Part 2

**NONE**

Schedule A - Part 3

**NONE**

Schedule B - Part 2

**NONE**

Schedule B - Part 3

**NONE**

Schedule BA - Part 2

**NONE**

Schedule BA - Part 3

**NONE**

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
<b>Bonds - U.S. Special Revenue</b>									
167593-KU-5	CHICAGO IL O'HARE INTERNATIONAL		08/29/2012	Added by SunGard		2,500,785	2,250,000		1FE
254845-HL-7	DIST OF COLUMBIA WTR & SWR AUT		08/27/2012	Added by SunGard		1,191,150	1,000,000	21,944	1FE
3138M5-W3-9	FNMA 30 YR MBS/POOL		08/22/2012	JP Morgan Securities		6,670,761	6,488,278	6,488	1FE
455057-7K-9	INDIANA ST FIN AUTH REVENUE		08/14/2012	VARIOUS		2,964,887	2,510,000		1FE
46613C-S7-1	JEK FL ELEC SYS REVENUE		09/05/2012	Added by SunGard		1,701,411	1,460,000	3,447	1FE
490728-XB-3	KENT OH ST UNIV REVENUES		09/18/2012	WELLS FARGO BROK SER LLC		5,555,700	5,000,000	62,500	1FE
51166F-CN-7	LAKELAND FLA ENERGY SYS		08/23/2012	Goldman Sachs		2,000,000	2,000,000		1FE
59259Y-SL-4	MET TRANSPRTN AUTH NY REVENUE		08/17/2012	VARIOUS		2,699,201	2,440,000	10,844	1FE
59259Y-TX-7	MET TRANSPRTN AUTH NY REVENUE		09/20/2012	Morgan Stanley Co		1,149,990	1,000,000		1FE
<b>3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Government and Their Political Subdivisions</b>						<b>26,433,885</b>	<b>24,148,278</b>	<b>105,223</b>	<b>XXX</b>
<b>Bonds - Industrial and Miscellaneous (Unaffiliated)</b>									
058521-AB-1	BALLANTYNE RE PLC 2006-1A A2A		07/02/2012	FSA		50,400	165,004		6AM
058521-AC-9	BALLANTYNE RE PLC 2006-1A A2B		07/02/2012	FSA		247,263	660,014		1FE
03523T-BP-2	ANHEUSER-BUSCH INBEV WORLDWIDE INC		07/11/2012	Added by SunGard		3,109,938	3,125,000		1FE
02149Q-AE-0	CWALT INC 2007 0A10		08/16/2012	FSA		10,671,715	13,763,032	11,008	1FE
52177D-AB-5	LEAF RECEIVABLES FDG 8 LLC RATE: 0		09/18/2012	GUGGENHEIM CAPITAL MARKET		22,547,304	22,672,000		1FE
<b>3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)</b>						<b>36,626,620</b>	<b>40,385,050</b>	<b>11,008</b>	<b>XXX</b>
<b>8399997 - Subtotals- Bonds - Part 3</b>						<b>63,060,505</b>	<b>64,533,328</b>	<b>116,231</b>	<b>XXX</b>
<b>8399999 - Subtotals - Bonds</b>						<b>63,060,505</b>	<b>64,533,328</b>	<b>116,231</b>	<b>XXX</b>
<b>9999999 Totals</b>						<b>63,060,505</b>	<b>XXX</b>	<b>116,231</b>	<b>XXX</b>

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues .....

STATEMENT AS OF SEPTEMBER 30, 2012 OF THE ASSURED GUARANTY CORP.

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Foreign Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)	
<b>Bonds - U.S. States, Territories and Possessions</b>																					
939745-SJ-5	WASHINGTON ST VAR	07/01/2012	MATURITY		5,000,000	5,000,000	5,429,150	5,022,184		(22,184)		(22,184)		5,000,000				300,000	07/01/2012	1FE	
<b>1799999 - Bonds - U.S. States, Territories and Possessions</b>																					
<b>Bonds - U.S. Political Subdivisions of States, Territories and Possessions</b>																					
797355-NH-3	SAN DIEGO CALIF UNI SCH DIST 6.0	07/02/2012	CALLED @ 101.0000000		5,050,000	5,000,000	5,195,900	5,054,755		(4,755)		(4,755)		5,050,000				262,500	07/01/2025	1FE	
<b>2499999 - Bonds - U.S. Political Subdivisions of States, Territories and Possessions</b>																					
<b>Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions</b>																					
047856-EX-3	ATLANTA GA URBAN RESIDENTIAL FEDERAL HOME LN MTG CORP	09/04/2012	Sink PMT @ 100.0000000		405,000	405,000	424,845	426,148		(21,148)		(21,148)		405,000				13,604	03/01/2041	1FE	
3128MJ-QG-8	#608454 FEDERAL NATIONAL MORTGAGE	09/17/2012	PRINCIPAL RECEIPT		161,892	161,892	168,065	168,526		(6,633)		(6,633)		161,892				4,766	07/01/2041	1	
31359M-NU-3	ASSOCIAT FG J14649	08/01/2012	MATURITY		10,000,000	10,000,000	10,577,155	10,196,645		(196,645)		(196,645)		10,000,000				525,000	08/01/2012	1	
3128PU-EW-8	FG J14731	09/17/2012	PRINCIPAL RECEIPT		1,580,429	1,580,429	1,572,814	1,572,814		7,645		7,645		1,580,429				37,321	04/01/2026	1	
3128PU-HG-0	FG J14731 GOLD 15 FHLMC PC	09/17/2012	PRINCIPAL RECEIPT		1,346,604	1,346,604	1,340,116	1,340,225		6,379		6,379		1,346,604				31,322	03/01/2026	1	
3128PQ-08-7	YR FHLMC POOL 001714	09/17/2012	PRINCIPAL RECEIPT		782,824	782,824	820,008	810,995		(28,172)		(28,172)		782,824				23,884	12/01/2024	1	
31326E-3X-6	FHLMC REMIC SERIES 3031	09/17/2012	PRINCIPAL RECEIPT		263,832	263,832	265,667	265,893		(2,051)		(2,051)		263,832				7,193	07/01/2041	1	
31396A-AV-6	FHLMC 3632 PK CMO/AGENCY	09/17/2012	PRINCIPAL RECEIPT		137,859	137,859	143,632	144,609		(6,609)		(6,609)		137,859				4,015	08/15/2033	1	
31398W-SD-7	FHLMC 3632 PK CMO/AGENCY	09/17/2012	PRINCIPAL RECEIPT		103,676	103,676	115,299	117,131		(13,455)		(13,455)		103,676				3,453	02/15/2040	1	
3138AB-SL-1	FN AH6822	09/25/2012	PRINCIPAL RECEIPT		289,967	289,967	292,323	292,260		(2,293)		(2,293)		289,967				6,933	03/01/2026	1	
3138AX-RK-9	FNMA 30YR MBS/POOL	09/25/2012	PRINCIPAL RECEIPT		906,782	906,782	931,436	931,495		(24,712)		(24,712)		906,782				20,724	11/01/2041	1	
31417V-PW-7	YEAR IDAHO HSG AGY INT 15	09/25/2012	PRINCIPAL RECEIPT		440,036	440,036	457,816	456,625		(16,588)		(16,588)		440,036				13,638	12/01/2024	1	
451296-K9-7	SIN MO HSG SF PAC	07/02/2012	Sink PMT @ 100.0000000		50,000	50,000	49,875	49,932		68		68		50,000				4,167	07/01/2027	1FE	
60636X-8E-6	MS HSG PAC	09/04/2012	Sink PMT @ 100.0000000		85,000	85,000	91,549	90,933		(5,933)		(5,933)		85,000				1,956	11/01/2027	1FE	
60535G-AX-0	MS HSG PAC	09/04/2012	Sink PMT @ 100.0000000		55,000	55,000	59,237	58,748		(3,748)		(3,748)		55,000				1,250	12/01/2031	1FE	
<b>3199999 - Bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions</b>																					
<b>Bonds - Industrial and Miscellaneous (Unaffiliated)</b>																					
058521-AB-1	BALLANTYNE RE PLC 2006-1A A2A	09/21/2012	VARIOUS		56,043	165,004	50,400			1,167		1,167		51,567		4,476		4,476	05/02/2036	6AM	
058521-AC-9	BALLANTYNE RE PLC 2006-1A A2B	09/02/2012	PRINCIPAL RECEIPT		86,329	86,329	29,571	10,298		57,111		4,186		86,329				4	05/02/2036	1AM	
22546Q-AB-3	CREDIT SUISSE NEW YORK BRANCH	07/02/2012	MATURITY		7,500,000	7,500,000	7,786,950	7,557,814		(57,814)		(57,814)		7,500,000				249,406	07/02/2012	1FE	
86959L-AB-9	SVENSKA HANDELSBANKEN MTN 1444	09/14/2012	MATURITY		7,500,000	7,500,000	7,648,800	7,538,923		(38,923)		(38,923)		7,500,000				215,625	09/14/2012	1FE	
000292-AB-8	AAA 2007-2 A2 BEAR STEARNS CMBS 2003-	09/27/2012	PRINCIPAL RECEIPT		76,766	76,766	11,877	44,063		65,555		32,852		76,766					01/27/2046	1AM	
07383F-XN-3	TOP12	09/13/2012	PRINCIPAL RECEIPT		433,313	433,313	405,063	427,500		5,813		5,813		433,313				15,290	08/13/2039	1FM	
173067-AC-3	CGCMT 2004-C1 A3	09/17/2012	PRINCIPAL RECEIPT		165,716	165,716	171,419	169,467		(3,751)		(3,751)		165,716				5,786	04/15/2040	3FM	
12629E-AF-2	CSAB MTG-BCKD TR 2007-1	09/25/2012	PRINCIPAL RECEIPT		400,333	400,333	261,518	263,071		137,262		137,262		400,333					05/25/2037	1FM	
02149Q-AE-0	CWALT INC 2007 OA10	09/25/2012	PRINCIPAL RECEIPT		1,440,231	1,440,231	864,024	321,094		640,940		640,940		1,440,231				164	09/25/2047	1FE	
26442C-AA-2	DUKE ENERGY CALIFORNIA	07/27/2012	Susquehanna International		538,604	400,000	399,948	399,950						399,950		138,654	138,654	16,267	06/01/2037	1FE	
46625M-NP-0	2002-C1C5	09/12/2012	PRINCIPAL RECEIPT		2,654,401	2,654,401	2,634,389	2,652,436		1,965		1,965		2,654,401				86,292	10/12/2037	1FM	
872227-AH-6	TBW MTG BKD TR 2007-2	09/25/2012	PRINCIPAL RECEIPT		733,356	733,356	375,304	367,163		366,192		366,192		733,356					07/25/2037	1FM	
88158A-AJ-1	9 SL	09/25/2012	PRINCIPAL RECEIPT		103,086	103,086	72,924	75,043		30,536		2,493		103,086					06/25/2038	1FE	
88158A-AA-0	TERWIN MTG TR 2007-SL9	09/25/2012	PRINCIPAL RECEIPT		132,098	132,098	83,295	85,050		46,047		46,047		132,098					06/25/2038	1FM	
929786-76-2	WACHOVIA CMBS 2005-C21	09/17/2012	PRINCIPAL RECEIPT		855,255	855,255	857,928	855,373		(318)		(318)		855,255				23,563	10/15/2044	1FM	
94975G-AL-1	WELLS FARGO FINL INC	08/01/2012	MATURITY		1,750,000	1,750,000	1,891,068	1,782,100		(32,100)		(32,100)		1,750,000				96,250	08/01/2012	1FE	
<b>3899999 - Bonds - Industrial and Miscellaneous (Unaffiliated)</b>																					
<b>8399997 - Subtotals - Bonds - Part 4</b>																					
<b>8399999 - Subtotals - Bonds</b>																					
<b>9999999 Totals</b>																					

EO5

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues

Schedule DB - Part A - Section 1

**NONE**

Schedule DB - Part B - Section 1

**NONE**

Schedule DB - Part D

**NONE**

Schedule DL - Part 1

**NONE**

Schedule DL - Part 2

**NONE**



