

ASSURED  
GUARANTY®



## Financial Supplement

**Assured Guaranty Re Ltd.**

December 31, 2012



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This financial supplement should be read in conjunction with documents filed by Assured Guaranty Ltd. ("AGL" and, together with its subsidiaries, "Assured Guaranty") with the Securities and Exchange Commission ("SEC"), including Assured Guaranty's Annual Report on Form 10-K for the year ended December 31, 2012. For the purposes of this financial supplement, all references to the "Company" shall mean Assured Guaranty Re Ltd. ("AG Re") and its consolidated entities.

Some amounts in this financial supplement may not add due to rounding.

**Cautionary Statement Regarding Forward Looking Statements:**

Any forward looking statements made in this supplement reflect the current views of Assured Guaranty with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. Assured Guaranty's forward looking statements could be affected by many events. These events include (1) rating agency action, including a ratings downgrade, a change in outlook, the placement of ratings on watch for downgrade, or a change in rating criteria, at any time, of Assured Guaranty or any of its subsidiaries and/or of transactions that Assured Guaranty's subsidiaries have insured; (2) developments in the world's financial and capital markets that adversely affect the demand for the Company's insurance, issuers' payment rates, Assured Guaranty's loss experience, its exposure to refinancing risk in transactions (which could result in substantial liquidity claims on its guaranties), its access to capital, its unrealized (losses) gains on derivative financial instruments or its investment returns; (3) changes in the world's credit markets, segments thereof or general economic conditions; (4) the impact of rating agency action with respect to sovereign debt and the resulting effect on the value of securities in the Company's investment portfolio and collateral posted by and to the Company; (5) more severe or frequent losses impacting the adequacy of Assured Guaranty's expected loss estimates; (6) the impact of market volatility on the mark-to-market of Assured Guaranty's contracts written in credit default swap form; (7) reduction in the amount of insurance opportunities available to Assured Guaranty; (8) deterioration in the financial condition of Assured Guaranty's reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to Assured Guaranty under its reinsurance agreements; (9) failure of Assured Guaranty to realize insurance loss recoveries or damages expected from originators, sellers, sponsors, underwriters or servicers of residential mortgage-backed securities transactions through loan putbacks, settlement negotiations or litigation; (10) the possibility that budget shortfalls or other factors will result in credit losses or impairments on obligations of state and local governments that the Company insures or reinsures; (11) increased competition, including from new entrants into the financial guaranty industry; (12) changes in applicable accounting policies or practices; (13) changes in applicable laws or regulations, including insurance and tax laws; (14) other governmental actions; (15) difficulties with the execution of Assured Guaranty's business strategy; (16) contract cancellations; (17) loss of key personnel; (18) adverse technological developments; (19) the effects of mergers, acquisitions and divestitures; (20) natural or man-made catastrophes; (21) other risks and uncertainties that have not been identified at this time; (22) management's response to these factors; and (23) other risk factors identified in Assured Guaranty's filings with the SEC. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the dates on which they are made. Assured Guaranty undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Assured Guaranty Re Ltd.**  
**Consolidated Statements of Operations (unaudited)**  
(dollars in millions)

	<b>Three Months Ended</b>		<b>Year Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2012</b>	<b>2011 <sup>(1)</sup></b>	<b>2012</b>	<b>2011 <sup>(1)</sup></b>
<b>Revenues:</b>				
Net earned premiums	\$ 36	\$ 42	\$ 146	\$ 150
Net investment income	21	24	87	96
Net realized investment gains (losses)	2	0	13	(1)
Net change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	(11)	4	(24)	(10)
Net unrealized gains (losses)	(21)	(40)	(118)	86
Net change in fair value of credit derivatives	(32)	(44)	(142)	76
Other income	0	0	(3)	2
<b>Total revenues</b>	<b>27</b>	<b>22</b>	<b>101</b>	<b>323</b>
<b>Expenses:</b>				
Loss and loss adjustment expenses	3	4	84	89
Amortization of deferred acquisition costs	10	10	38	42
Other operating expenses	3	7	18	23
<b>Total expenses</b>	<b>16</b>	<b>21</b>	<b>140</b>	<b>154</b>
<b>Income (loss) before income taxes</b>	<b>11</b>	<b>1</b>	<b>(39)</b>	<b>169</b>
Provision (benefit) for income taxes	2	0	9	4
<b>Net income (loss)</b>	<b>\$ 9</b>	<b>\$ 1</b>	<b>\$ (48)</b>	<b>\$ 165</b>
Less after-tax adjustments:				
Realized gains (losses) on investments	2	0	3	(1)
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(28)	(61)	(140)	56
Foreign exchange gains (losses) on remeasurement of premiums receivable and loss and LAE reserves	0	0	4	(1)
<b>Operating income</b>	<b>\$ 35</b>	<b>\$ 62</b>	<b>\$ 85</b>	<b>\$ 111</b>

1) Effective January 1, 2012, the Company adopted, and applied retroactively, new guidance on acquisition costs. The effect of adoption was an increase in net income of \$0.2 million and \$1.1 million for the three months and year ended December 31, 2012, respectively.

Note: Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.

**Assured Guaranty Re Ltd.**  
**Consolidated Balance Sheets (unaudited)**  
(dollars in millions)

	As of:	
	December 31, 2012	December 31, 2011 <sup>(1)</sup>
<b>Assets:</b>		
Investment portfolio:		
Fixed maturity securities, available-for-sale, at fair value	\$ 2,191	\$ 2,443
Short-term investments, at fair value	169	76
Total investment portfolio	2,360	2,519
Loan receivable from affiliate	90	—
Cash	20	22
Premiums receivable, net of ceding commissions payable	244	273
Deferred acquisition costs	330	343
Salvage and subrogation recoverable	30	35
Credit derivative assets(2)	9	9
Deferred tax asset, net	3	7
Other assets	64	48
<b>Total assets</b>	<b>\$ 3,150</b>	<b>\$ 3,256</b>
<b>Liabilities and shareholder's equity:</b>		
<b>Liabilities:</b>		
Unearned premium reserve	\$ 1,177	\$ 1,244
Loss and loss adjustment expense reserve	240	242
Reinsurance balances payable, net	7	14
Credit derivative liabilities(2)	389	269
Current income tax payable	1	1
Other liabilities	34	20
<b>Total liabilities</b>	<b>1,848</b>	<b>1,790</b>
<b>Shareholder's equity:</b>		
Preferred stock	—	—
Common stock	1	1
Additional paid-in capital	857	857
Retained earnings	283	481
Accumulated other comprehensive income	161	127
<b>Total shareholder's equity</b>	<b>1,302</b>	<b>1,466</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 3,150</b>	<b>\$ 3,256</b>

- 1) Effective January 1, 2012, the Company adopted, and applied retroactively, new guidance on acquisition costs. The effect of this adoption was a decrease to deferred acquisition costs of \$7 million and a decrease to shareholder's equity of \$7 million as of December 31, 2011.
- 2) Credit derivative assets and liabilities presented on the consolidated balance sheet at December 31, 2011 have been revised to reflect the correction of a \$68 million misclassification between credit derivative assets and credit derivative liabilities. The correction, recorded in the fourth quarter 2012, reduced the credit derivative asset and liability balances and had no effect on the statement of operations.

## Assured Guaranty Re Ltd.

### Adjusted Book Value

(dollars in millions)

	As of:	
	December 31, 2012	December 31, 2011 <sup>(1)</sup>
<b>Reconciliation of shareholder's equity to adjusted book value:</b>		
<b>Shareholder's equity</b>	<b>\$ 1,302</b>	<b>\$ 1,466</b>
Less after-tax adjustments:		
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(324)	(181)
Unrealized gain (loss) on investment portfolio excluding foreign exchange effect	161	127
<b>Operating shareholders' equity</b>	<b>\$ 1,465</b>	<b>\$ 1,520</b>
After-tax adjustments:		
Less: Deferred acquisition costs	330	342
Plus: Net present value of estimated net future credit derivative revenue	40	58
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	1,145	1,213
<b>Adjusted book value</b>	<b>\$ 2,320</b>	<b>\$ 2,449</b>

1) Effective January 1, 2012, the Company adopted, and applied retroactively, new guidance on acquisition costs. The effect of adoption was a decrease to shareholder's equity and operating shareholder's equity of \$7 million and had no effect on adjusted book value as of December 31, 2011.

Note: Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.

**Assured Guaranty Re Ltd.**  
Condensed Consolidated Statement of Cash Flows (unaudited)  
(dollars in millions)

	<b>Three Months Ended December 31, 2012</b>	<b>Year Ended December 31, 2012</b>
<b>Net cash flows provided by operating activities</b>	<b>\$ 29</b>	<b>\$ 23</b>
<b>Investing activities:</b>		
Fixed maturity securities:		
Purchases	(123)	(507)
Sales	95	436
Maturities	151	380
Net purchases of short-term investments	(99)	(93)
Loan to affiliate	—	(90)
<b>Net cash flows provided by investing activities</b>	<b>24</b>	<b>126</b>
<b>Financing activities</b>		
Dividends paid	(40)	(151)
<b>Net cash flows used in financing activities</b>	<b>(40)</b>	<b>(151)</b>
Increase (decrease) in cash	13	(2)
Cash at beginning of period	7	22
<b>Cash at end of period</b>	<b>\$ 20</b>	<b>\$ 20</b>

## Non-GAAP Financial Measures

The Company references financial measures that are not in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Assured Guaranty's management and board of directors utilize non-GAAP measures in evaluating the Company's financial performance and as a basis for determining senior management incentive compensation. By providing these non-GAAP financial measures, investors, analysts and financial news reporters have access to the same information that management reviews internally. In addition, Assured Guaranty's presentation of non-GAAP financial measures is consistent with how analysts calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and with how investors, analysts and the financial news media evaluate Assured Guaranty's financial results.

The following paragraphs define each non-GAAP financial measure and describe why it is useful. A reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure, if available, is presented within this financial supplement. Non-GAAP financial measures should not be viewed as substitutes for their most directly comparable GAAP measures.

**Operating Income:** Management believes that operating income is a useful measure because it clarifies the understanding of the underwriting results of the Company's financial guaranty insurance business, and also includes financing costs and net investment income, and enables investors and analysts to evaluate the Company's financial results as compared with the consensus analyst estimates distributed publicly by financial databases. Operating income is defined as net income (loss) attributable to the Company, as reported under GAAP, adjusted for the following:

1) Elimination of the after-tax realized gains (losses) on the Company's investments, except for gains and losses on securities classified as trading. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile. Trends in the underlying profitability of the Company's business can be more clearly identified without the fluctuating effects of these transactions.

2) Elimination of the after-tax non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss. Additionally, such adjustments present all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.

3) Elimination of the after-tax foreign exchange gains (losses) on remeasurement of net premium receivables and loss and LAE reserves. Long-dated receivables constitute a significant portion of the net premium receivable balance and represent the present value of future contractual or expected collections. Therefore, the current period's foreign exchange remeasurement gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.

**Operating Shareholder's Equity:** Management believes that operating shareholders' equity is a useful measure because it presents the equity of Assured Guaranty Ltd. with all financial guaranty contracts accounted for on a more consistent basis and excludes fair value adjustments that are not expected to result in economic loss. Many investors, analysts and financial news reporters use operating shareholders' equity as the principal financial measure for valuing Assured Guaranty Ltd.'s current share price or projected share price and also as the basis of their decision to recommend, buy or sell Assured Guaranty Ltd.'s common shares. Many of the Company's fixed income investors also use operating shareholders' equity to evaluate the Company's capital adequacy. Operating shareholders' equity is the basis of the calculation of adjusted book value (see below). Operating shareholders' equity is defined as shareholders' equity attributable to Assured Guaranty Ltd., as reported under GAAP, adjusted for the following:

1) Elimination of the after-tax non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.

2) Elimination of the after-tax unrealized gains (losses) on the Company's investments, that are recorded as a component of accumulated other comprehensive income ("AOCI") (excluding foreign exchange remeasurement). The AOCI component of the fair value adjustment on the investment portfolio is not deemed economic because the Company generally holds these investments to maturity and therefore should not recognize an economic gain or loss.

## Non-GAAP Financial Measures (continued)

**Adjusted Book Value:** Management believes that adjusted book value is a useful measure because it enables an evaluation of the net present value of the Company's in-force premiums and revenues in addition to operating shareholders' equity. The premiums and revenues included in adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current adjusted book value due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults and other factors. Many investors, analysts and financial news reporters use adjusted book value to evaluate Assured Guaranty Ltd.'s share price and as the basis of their decision to recommend, buy or sell the Assured Guaranty Ltd. common shares. Adjusted book value is operating shareholders' equity, as defined above, further adjusted for the following:

1) Elimination of after-tax deferred acquisition costs, net. These amounts represent net deferred expenses that have already been paid or accrued and will be expensed in future accounting periods.

2) Addition of the after-tax net present value of estimated net future credit derivative revenue. See below.

3) Addition of the after-tax value of the unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums, net of expected losses to be expensed. Net expected losses to be expensed are not reflected in GAAP equity.

**Net present value of estimated net future credit derivative revenue:** Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated credit derivative revenue. There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from the Company's credit derivative in-force book of business, net of reinsurance, ceding commissions and premium taxes for contracts without expected economic losses, and is discounted at 6%. Estimated net future credit derivative revenue may change from period to period due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults or other factors that affect par outstanding or the ultimate maturity of an obligation.



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