**Assured Guaranty Ltd. (AGO)**

**May 8, 2014**

**Q1 2014 Earnings Call**

**Robert S. Tucker**

**Managing Director, Corporate Communications and Investor Relations**

Thank you operator and thank you all for joining Assured Guaranty for our first quarter 2014 financial results conference call.

Today's presentation is made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. The presentation may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results, future rep and warranty settlement agreements, or other items that may affect our future results.

These statements are subject to change due to new information or future events.

Therefore, you should not place undue reliance on them as we do not undertake any obligation to publicly update or revise them, except as required by law. If you are listening to the replay of this call, or if you're reading the transcript of the call, please note that our statements made today may have been updated since this call.

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

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

I will now turn the call over to Dominic.

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

Thank you, Robert, and welcome to everyone joining today's first quarter 2014 earnings call.

Assured Guaranty has started the year with a solid first quarter, earning $132 million of operating income. We brought operating shareholders' equity per share to a record $34.45 and adjusted book value per share to $49.79.

Additionally, we resumed buying back common shares in March, as part of our capital management strategy. Rob will bring you up to date on our share repurchase program in a moment.

But first, I want to discuss some of the very positive recent developments at Assured Guaranty. I'll begin with the U.S. public finance sector, where we have had further success in resolving our exposures to troubled credits. Having reached a tentative settlement with Detroit last month on our unlimited tax general obligation bonds, after having previously achieved final or preliminary settlements with Jefferson County, Alabama; Harrisburg, Pennsylvania; and Stockton, California, we have significantly reduced the number of troubled municipal credits in our insured portfolio.

In the Detroit settlement, we succeeded in defending a key tenet of municipal finance by requiring the City to confirm the secured status of the Detroit voter-approved UTGO bonds. I don't know whether any group of uninsured creditors could have achieved the same result – which highlights a significant value bond insurance brings to the municipal market.

While the Detroit bankruptcy process is not yet over, this case should also serve as a cautionary tale for fixed income investors and reinforce the proposition that bond insurance provides significant benefit to insured bondholders.

In regard to Puerto Rico, their recent $3.5 billion offering provides needed liquidity as they continue to work through their fiscal and economic challenges. They have consistently expressed their intention to meet their debt obligations and have taken positive steps to manage both their revenues and expenses. Last week, the governor introduced a balanced budget for 2015, a year earlier than he originally planned. We understand the Commonwealth will continue to face challenges for some time, and we will obviously be monitoring their progress.

Another area where we have made great progress is in our legacy RMBS exposure.
The size of our net U.S. RMBS exposure is now less than half of what it was after we acquired AGM in third quarter 2009, when that exposure was over $30 billion and represented almost 5% of our insured portfolio. As of March 31 of this year, we had $13 billion of net U.S. RMBS exposure, representing less than 3% of our insured portfolio.

Of this exposure, more than 43% is investment grade.

Our claim payments have also improved. On a cash flow basis, our quarterly net RMBS claims have declined by 80% since their peak in the second quarter of 2012, and that is without giving effect to settlement or litigation receipts. By the end of first quarter of 2014, average monthly claims paid before recoveries decreased to $19 million, and after subtracting recoveries, our monthly payments averaged less than $3 million.

Through putbacks, settlements and litigation, as of March 31, 2014, we have caused RMBS providers to pay or agree to pay $3.7 billion. This includes a new HELOC settlement reached in the first quarter with a regional bank. Currently, 64% of our exposure to troubled U.S. RMBS transactions relates to transactions that have benefited from R&W agreements, including 35% in transactions that are covered by ongoing loss-sharing agreements.

Among our R&W providers, our principal outlier remains Credit Suisse. Earlier this year, Credit Suisse set aside substantial assets for contingencies like RMBS litigation. In

February, a New York appeals court ruling reinstated our right to pursue broad remedies in addition to the repurchase of defective mortgage loans in our fraud and breach of contract action against Credit Suisse. This case relates to RMBS with original par of $4.3 billion, of which we insured $567 million. We think it is in Credit Suisse's best interest to settle, as we have put back $2.2 billion of defective loans backing these transactions, which represents a claim that is a substantial multiple of Assured Guaranty's projected losses on the bonds it insured.

As a result of our various loss mitigation efforts and the ongoing deleveraging of our insured portfolio, we continue to improve our risk profile while also writing additional new business and engendering an increasingly positive market perception of our product and our company. Acknowledging all of this, on March 18, S&P upgraded the financial strength ratings of all of our insurance operating subsidiaries from AA-minus to AA-flat, the highest rating they currently assign to any active bond insurer. Our new S&P rating should expand the available market for our guaranty − which brings me to the subject of new business production, where our first-quarter PVP of $31 million was up 72% from a year ago.

This is a good result, considering that low interest rates and tight credit spreads continue to limit opportunities in the U.S. public finance sector. In fact, long-term municipal yields fell more than 50 basis points and credit spreads tightened during the first quarter. In addition, despite a 26% decline in total U.S. municipal issuance in first quarter 2014 vs. first quarter 2013, we increased by 21% the par volume of bonds sold with our insurance. We think this improvement reflects greater awareness of the benefits of our guaranty and the increasing market acceptance of MAC, our U.S. muni-only bond insurer launched last July, which has the highest rating from any nationally recognized statistical rating organization: AA-plus from Kroll. Through AGM and MAC, we continued to guarantee the majority of the municipal insured par sold in the primary market during the quarter. In total, including our strong secondary market business, we recorded $23 million of first-quarter U.S. public finance PVP, up 44% from last year's first quarter.

And in our unique position as the only guarantor with a diversified strategy across U.S public finance, international infrastructure and structured finance, we are also now finding opportunities in Europe and in global structured finance.

In the United Kingdom, we guaranteed our fourth recent infrastructure transaction, a £77 million wrapped bond to finance a project to build and maintain social housing for seniors in the North of England. Having now written business in three consecutive quarters, we are clearly gaining traction in the infrastructure market and have a list of potential transactions both in the U.K. and other countries. While we confidently look forward to further growth in our international business as the recovery in Europe progresses, keep in mind that many of these transactions can take a relatively long time to execute, which can create variability in our quarterly international production results.

In structured finance, we are also seeing positive developments. In addition to two small transactions we closed in the first quarter, we have ongoing opportunities in the insurance sector and are seeing renewed interest in our participation in international future flow transactions. Last week, we closed a private transaction with a prominent insurance company, and we are currently mandated on two future flow issues, which are in process. We are optimistic about our opportunities in a variety of structured finance sectors − in both U.S. and international markets.

We also have opportunities in what I call “production-like” activities. This may include assumptions of other guarantors’ insured obligations or reassumptions of business we have previously ceded to third parties. For example, during the first quarter, we reassumed approximately $850 million of almost exclusively U.S. public finance and European utility and infrastructure par in exchange for the reinsurer’s share of outstanding statutory unearned premiums plus a commutation premium. Thus, by taking the business back, we increased our unearned premium reserve and our future installment premiums and also recognized a commutation gain.

Also during the first quarter, we continued to create value through alternative strategies such as loss mitigation and capital management. Specifically:

- We bought $62 million of bonds we had previously insured for $53 million, or 86% of par value;

- And we terminated or agreed to terminate $1.5 billion of net par outstanding. This included $790 million of commercial mortgage-backed exposure, thus eliminating 20% of our insured CMBS risk.

As far as the future is concerned, I am very optimistic. The reputations of Assured Guaranty and our bond insurance product are on the upswing − as our legacy RMBS issues fade, we remove uncertainties related to a handful of troubled municipal credits, and investors and their advisors take note of our ability to pay claims while maintaining, and even improving, our financial strength -- something that we have proven repeatedly.

We are the best positioned guarantor in the U.S. public finance sector, where we will have greater opportunities when interest rates rise closer to their historical norms. We believe the Fed will continue tapering its asset purchases, which should gradually push long-term interest rates higher.

Additionally, we see growing opportunities in the international infrastructure and structured finance markets. As we pursue all of our diverse opportunities, we will continue to manage our capital efficiently while maintaining the proven value of our financial guarantees.

Now I'll turn the call over to Rob.

**Rob Bailenson**
**Chief Financial Officer**
Thank you, Dominic, and good morning to everyone on the call. As Dominic mentioned,

2014 is off to a very good start with $130 million in operating income, or $0.72 per share.

I would like to highlight the operating income benefits of some of the developments Dominic mentioned including $32 million related to R&W development and $12 million in commutation gains from the reassumption of ceded business, which also contributed a total of $38 million to pre-tax adjusted book value and consisted of over $850 million of net par.

The first quarter also includes $20 million in premium accelerations which vary from period-to-period. Economic loss development was $12 million in the first quarter of 2014 which was primarily due to our Detroit exposures and the effect of changes in risk-free rates use to discount expected losses. This was offset in part by rep and warranty development and improvements in other structured finance obligations. The effective tax rate on operating income was slightly higher at 26.7% for the first quarter of 2014 compared with 25.8% in the first quarter of 2013 and was due to higher loss expense in non-taxable jurisdictions.

When comparing operating income to the first quarter of 2013 it is important to note that 2013 included a $71 million benefit related to the R&W settlement with UBS and premium accelerations of $64 million. As of March 31, 2014 operating shareholders' equity hit a new high of $34.45 per share and ABV per share rose to $49.79. In addition to PVP and reassumptions the biggest contributor to the quarterly increase in ABV per share has been our share repurchase program. As of today, we have used $75 million of our $400 million authorization. It is our intention to fully utilize the remaining $325 million by the end of September and then to request another authorization from our Board.

As in the past, our capital management execution is contingent on our available free cash and capital position and maintenance of our strong financial strength rating and other factors. Since January of 2013, we have repurchased 15.5 million shares at an average price of $21.90 per share for total of $339 million. As of March 31, 2014 the holding company had cash and liquid assets of approximately $280 million and we have dividend capacity from the U.S. insurance subsidiary of approximately $240 million that will be available to AGL throughout 2014. In prior years we relied solely on dividends from AG Re, now that we have changed our tax residency we will now also have access to the capital of our U.S subsidiaries.

Looking to the remainder of 2014 our financial supplement includes detail on our scheduled insurance revenues excluding refundings and terminations as well as loss expense. As we noted in our previous earnings call quarterly net earned premiums in CDS revenues will be less than in prior years based on the amortization of par. With respect to loss expense we are pleased with this quarter's R&W development. However, we have fewer R&W providers left to pursue and therefore the benefit in the future may be last than in prior periods.

I'll now turn call over to our operator to give you the instructions for the question and answer period. Thank you.

**Q&A**

**Sean Dargan, Macquarie Group**
Thank you and just some unsolicited advice, please, say you're going to release before the open - I think the release gets out earlier the night before. When we look at the share repurchase, obviously there is, I think you made clear that there will be no extraordinary dividend between now and September 30, is there a possibility for that in 2015 now that you've got an upgrade from S&P does that change anything?

**Dominic Frederico**
Well I think as we look at the capital management strategy, and as Rob pointed out it’s based on a number of factors, you’re pointing to the biggest one, which is the availability of free cash. We know and we've produced and disclosed the amount of normal cash

that’s available to the dividend capacity of our operating subsidiaries, and that will get us so far in the capital management. So at some point in time if we're going to enhance that based on once again our view of the ratings, stability and the financial side position of the company, we're going to need to enhance it in some way shape or form and one of the tools to enhance would be special dividends.

So we view that as an opportunity that's going to have to be realized or used but obviously as we look at the timing of it we're being practical in what we think is going to be available to us from a New York point of view. And when that would be available I think, facts like upgrades of ratings would definitely help in our case to the New York and to the Maryland regulators.

Additionally, we’re going to look at other sources of potential additional free cash which would include potentially taking on additional debt. So all of those things will be evaluated as we look to buy back from a capital management view; the available cash generated from operating subsidiary dividend capacity and enhance it where necessary by all other transactions that could theoretically be available to us including special dividends.

**Sean Dargan**

Okay, thank you. Just on the $23 million of gross total, net economic loss development in public finance, can you give us any color to what that was attributable to?

**Rob Bailenson**

Yeah, most of that was attributable to the developments in Detroit. As Dominic mentioned we have agreed to some terms with the bankruptcy judge and we have now booked up based on our probability weighted scenarios to developments related to Detroit.

**Dominic Frederico**

Additionally, we did have the change in the risk free rate which caused us to increase loss reserves across a lot of these exposures as that discount rate changes for GAAP purposes we have to change then, the expected cash flows which has an effect on the reserves.

**Rob Bailenson**

And that risk free rate was primarily in structured finance, but that was about $27 million.

**Sean Dargan**

Okay. And how often do you revisit the discount rate?

**Rob Bailenson**

It has to be revisited every quarter.

**Sean Dargan**

Okay. Thank you very much.

**Brian Meredith, UBS**

Thanks, good morning. Couple of questions for you Dominic. The first one, any updates or anything you can tell us about Moody's and potentially what their thoughts are, and do you think there is a possibility for an upgrade there?

**Dominic Frederico**

Brian I have a crystal ball but it gets really dark when I put Moody's into the equation. All we know, as you know, publicly they have announced that they're looking at their methodology for rating financial guarantees and were supposed to or going to publish a draft or comment in some part of this near future and we have no expectations beyond that.

**Brian Meredith**

Great. And then, next question, I'm just curious with the ratings upgrade from S&P does that increase the possibility at all that maybe you could find some portfolios from some of the bond insurers moving your way?

**Dominic Frederico**

Well, I think it makes the argument stronger because obviously from the standpoint of the issuers they stand to get a more significant uptick from the higher rating being put onto the security. Two, it creates a greater spread for us as we look at the value of our guarantee against a typical issue in the marketplace. So I think it has two potential benefits there.

**Brian Meredith**

Got you, any activity there?

**Dominic Frederico**

Well, we always seek activity Brian you know that. We're not wallflowers by any stretch of the imagination. So you understand that we try to talk to everybody we possibly can. We think it is a reasonable transaction that could benefit both parties in terms of freeing up cash for some of the existing guarantors in the marketplace, providing them capital to parts of their organization where maybe they need it. At the same time we lower their risk and the risk exposure which further reduces their demand for capital. And then from the issuer or from the issuer on our investor side obviously there is an upgrade to their outstanding securities.

**Brian Meredith**

Got you. And then I'm just curious with the rating upgrade, have you seen any increase in the return on allocated capital you're seeing on your deals right now or the spreads that you are achieving in the marketplace.

**Dominic Frederico**

Yeah I would say it's a little too early to tell, obviously there is lot of information in the market both positive in some cases, negative when you think about Puerto Rico. The guarantee or the upgrade came late in the quarter so we expect that to really benefit future quarters. And as I said, as we continue to demonstrate the value of insurance either by us protecting bondholders, negotiating on behalf of bondholders, simply paying principal and interest when due. I think all that continues to add to a very positive developing story for us.

**Brian Meredith**
Thanks.

**Larry Vitale, Moore Capital**
Hi guys. How is everybody today?

**Dominic Frederico**
Hi Mr. Vitale.

**Rob Bailenson**
Hi Larry.

**Larry Vitale**
The unencumbered assets at AG Re have fallen now for what, four quarters in a row, went by the number, from $238 million in Q4 down to $201 million here at Q1. What's the reason for the decline?

**Rob Bailenson**
Good question Larry. As we said AG Re has been the sole source of our share repurchase as well as our equity dividend. So at this point, during the quarter we did purchase $75 million worth of our stock , AG Re was the sole source of that, and now as I said in my commentary we now have access to additional capital in the U.S. operations.

**Larry Vitale**

Okay. So what – was there a portion of the decline that was explained by an increase in reserves ceded to Bermuda?

**Rob Bailenson**

Primarily it would...

**Larry Vitale**

Because that has to be collateralized right?

**Rob Bailenson**

Yeah that – most of that was all done primarily that was due to the share repurchase and the source of that share repurchase came from AG Re. But as you know, we are scheduled for a contingency reserve recapture at the end of – in the middle of summer, which would recapture $244 million, or approximately, back to the U.S. which would free up more assets at AG RE.

**Larry Vitale**

Okay. That was my next question which you answered. That's all I have for today. Thank you guys.

**Dominic Frederico**

Thanks, Larry.

**Rob Bailenson**

You're welcome.

**James Ellman, Ascend Capital**

Yes. Actually it's James Ellman here, it sounds like you just let out the opportunity for special dividends up from these subs. Is that a real option and if so could you potentially tell us approximately what sort of size you're thinking about and what the timing might be?

**Dominic Frederico**

Well, as we look at capital management available cash to provide the, basically resources for the capital management operating dividend, normal dividend capacity as a principal source if we decide to enhance that obviously we're going to seek other sources. I think we talked on our last call, where we think there would be an opportunity for special dividend is down the road. We think regulators are still going be very conservative and looking at the economic recovery very conservative looking at the stability of our ratings as well as the continued run off of the troubled part of our portfolio. So that's a tool without question but it's a tool that we don't expect to utilize in the near term.

**James Ellman**

Right, thank you very much.

**Dominic Frederico**

You're welcome.

**Darren Marcus, MKM Partners**

Hi good morning everyone.

**Rob Bailenson**

Good morning Darren.

**Darren Marcus**

Good morning. As you guys mentioned debt, potentially floating debt – to be used for repurchases. So I was wondering is there some, again can you give us a ballpark or is there debt to capital ratio that you guys couldn't exceed or don't want exceed?

**Dominic Frederico**

Well. As you know Darren, the rating agencies do specify debt percentage of the capital. We are well within those guidelines and obviously anything we would consider would keep us within those guidelines. Remember one of the principle objectives of the company is to maintain strong ratings, obviously we don't want to run a foul of any rating agency especially now that we got our first upgrade in obviously a number of years and would hope to see that continue as troubled parts of the credits runoff and the RMBS runs down and structured no longer becomes a bad word in the marketplace. So any debt that we would consider, and as I said it's just another tool to consider, would be to enhance free available cash to try to enhance the capital management.

So at this point in time, a consideration we evaluate a lot of different components of the alternative strategies of which that is one. But whatever we would do if do would still be within every guideline that we would come across, and I think the tightest ones would be the rating agencies where we have reasonable amount of room there anyway.

**Darren Marcus**

Great. And then one more if I could. I'm guessing you guys have spent a lot of time thinking about new business opportunities outside of traditional financial guarantee. So when thinking about your share repurchase program going forward, should I be considering the possibility you guys would get involved in another business that could consume some of your otherwise free capital - maybe something like asset management or specialty financing or something along those lines? Thanks.

**Dominic Frederico**

Well. It's a good point, but I would say it in a different way. It wouldn't really affect excess capital per se. We believe we have significant excess capital. Obviously we're constrained by some external sources that view our capital, maybe, differently than we do. So we try to manage with all of those capital constraints but there is a concept called free capital, but there's also a concept called free cash flow and there's going to be a huge mismatch. So we're going to have excess capital which we would consider not necessary to maintain the ratings yet we don't have the physical ability to move it out of the company to use for these secured margin and share repurchasing.

So now you're stuck with the problem to say, well I've got capital, I need to put it to work to at least get an earning on it. So that you would see, potentially, some diversification more on the investment side than the business side, we like to stick to our core in terms of what we know - obviously we have a restriction in terms of financial guarantors, “monoline” it's there for a reason. So as we look at it, we'll continue to look at investment opportunities to utilize capital that, although is free or unencumbered, does not represent capital that could be easily transferred out of the company because of dividend restrictions, regulatory requirements et cetera.

**Darren Marcus**
Thanks a lot.

**Dominic Frederico**
You're welcome.

**Geoff Dunn**
Thanks, good morning.

**Dominic Frederico**
Good morning Geoff.

**Geoff Dunn**
So, I'm going to go, Dominic, I was a little surprised to hear you mention, I think it was insurance in the future flow as emerging opportunities in structured finance and I guess I can't really say insurance resonates well with me with some of the triple X deals we have seen in the past. I was hoping you can maybe give a little bit more detail on what specific type of opportunities you're seeing in those two areas and why are maybe those the two areas that we're seeing first to recover on the structured side?

**Dominic Frederico**

Well Geoff hopefully both of those are risks that we have written historically in the companies going back a number of years. The future flow transactions have been a part of structured finance, and although we've not been active in that market for quite a while because the market hasn't really requested any of our benefit, we're now seeing opportunities. And as you understand the future flow transactions are basically cash flows outside of a country that's lower rated, that provide them the opportunity to in effect advance those funds.

The insurance stuff, which is once again life insurance, as you can appreciate is now done on a totally different structure, where there is no asset management risk taken on by us as a guarantor. So we believe that lessons learned were good lessons learned, we've restructured the way those transactions are now built and therefore there is no asset management risk that's obviously part of Orkney and Ballantine issues. So in both cases, business we've done, and one case we believe business we've significantly enhanced from a risk point of view, are both good returns and good use of capital in the structured finance area.

**Geoff Dunn**

Okay, that's great on the life insurance. And on the future flow that's the same old like gas, oil, type of deals?

**Dominic Frederico**

No it's really the mix is, around the country it's a diversified payments rate structure, we used to do a lot of those back in the day – especially in AGC.

**Geoff Dunn**

Great, thank you very much.

**Dominic Frederico**

You're welcome.

**Operator**

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

**Robert S. Tucker**

Thank you operator. And I'd like to thank everyone for joining us on today's call. If you have additional questions please feel free to give us a call, thank you very much.

**Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.