ASSURED GUARANTY

# Assured Guaranty Ltd. (AGO)
## August 6, 2015
## Q2 2015 Earnings Call

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

Thank you operator. And thank you all for joining Assured Guaranty for our 2015 second quarter financial results conference call.

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

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

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

If you are listening to the replay of this call, or if you are reading 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 Ltd., and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to your questions. As the webcast is not enabled for Q&A, please dial in to the call if you would like to a ask 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 second quarter 2015 earnings call.

Assured Guaranty produced excellent results in the second quarter.

- Our balance sheet is strong, with our investment portfolio and cash totaling $11.7 billion, and we further strengthened our reserves during the quarter in response to negative developments, particularly in Puerto Rico. Operating shareholders' equity stands at $6.0 billion, or a record $40.55 per share, and adjusted book value is $8.7 billion, or $58.69 per share, which is also an all-time high.

- Our strategic acquisition of Radian Asset, and its merger into AGC, which are reflected for the first time in our second quarter results, increased AGC's capital base and policyholders' surplus. The acquisition is accretive to Assured Guaranty's earnings, operating shareholders' equity and adjusted book value and we expect increased future investment income and earned premiums with minimal impact on operating expenses.

- Our claims-paying resources grew by $634 million during the quarter to more than $12.6 billion, while our insured leverage of net par to statutory capital is 52:1, down 63% from our third quarter 2009 level of 142:1, increasing capital available for new business and share repurchasing.

- As part of our capital management strategy, we used $133 million of our excess capital to buy back 4.7 million shares during the second quarter. Rob will give you more detail on the share repurchase program shortly.

During the second quarter, as well as the first half, we saw rising demand for municipal bond insurance, and Assured Guaranty further solidified its position as the industry leader.

The $8.4 billion of U.S. municipal new issues sold with insurance during the second quarter was the industry's highest quarterly insured par amount since the third quarter of 2009. First-half insured volume of $14.4 billion was 97% higher than in the same period of 2014 and rose significantly more than the 50% increase in overall first-half municipal issuance.

Also, recently rising interest rates have made the economics of our bond insurance more attractive to both buyers and issuers. In the second quarter, benchmark municipal bond rates rose approximately 50 basis points.

The 7.5% second-quarter insured penetration lifted the first-half 2015 penetration to 6.7%, well ahead of the 5.1% rate for the first half of 2014. During the first six months of this year, about 26% of all new-issue par came to the market in the rating categories where we generate most of our business, that being single-A and triple-B. Within those categories, approximately 25% of par issued and 55% of transactions were insured.

Demand has grown because investors have seen the concrete benefit of our insurance. Assured Guaranty's products have a proven record of making full and timely debt service payments when issuers do not, and – by supporting the value of troubled issuers' bonds – mitigating price and valuation volatility associated with these issuers.

As the industry leader, we guaranteed nearly two-thirds of the insured par and 56% of the insured transactions sold in the primary U.S. municipal market during the second quarter. Additionally, we insured more than twice the par we insured in the second quarter of last year and 58% more than in the first quarter of this year. Second quarter business was well underwritten, with lower average capital charges than in last year's second quarter. Also, the underlying ratings on 16 of those transactions were in the double-A category, which indicates we can still add value even for very high quality issuers.

And while we guaranteed seven transactions of $100 million or more, Assured Guaranty was also the preferred insurer for smaller issues. AGM and MAC together wrapped more bank-qualified issues than any other guarantor, and this is true for the six-month period, as well. Our large, experienced public finance group and well-established infrastructure allowed us to handle the transaction flow efficiently.

There was additional positive news on June 29th, when Standard & Poor's released its annual rating review reaffirming the double-A ratings and stable outlook of our insurance financial strength. In their capital adequacy model, involving a stress-case similar to the Great Depression, S&P found our capital adequacy above their AAA requirement. Unlike previous years, S&P did not disclose the size of our capital cushion, but we estimate our excess capital in their model to be $1.9 billion at year-end 2014, $400 million higher than S&P reported last year in their annual report.

Importantly, S&P considered the effect of a default by multiple issuers in Puerto Rico over a one, two or three year time period and concluded there would be no change in our capital adequacy score based solely on such defaults. As they noted, we pay claims only as they come due, based on the original payment schedule. That means our $12.6 billion in claims-paying resources and approximately $400 million of annual investment income provide more than sufficient capital and liquidity to cover potential Puerto Rico claims.

Positive comments about our ability to manage our Puerto Rico exposure came from the two other rating agencies shortly after Governor Padilla, on June 29th, changed his posture and said a comprehensive debt restructuring might be necessary.

Kroll responded directly to that announcement on July 6th, writing that its AA+ stable rating of AGM was based on an analysis that assumed significant losses on most classes of insured Puerto Rico debt in addition to stress-case losses across our insured portfolio. It also did not give credit for certain reinsurance. Kroll found that our claims-paying resources were sufficient to meet all requirements by a comfortable margin.

Also on July 6th, Moody's commented that the June 30th bond purchase agreement that Assured Guaranty and other insurers executed with PREPA was a credit positive for us. Moody's called the agreement "concrete and material evidence" of our constructive dialogue to resolve the electric utility's challenges, quote, "increasing the likelihood of higher recoveries in the event of a default."

The governor's recent shift in support for honoring Puerto Rico's debt creates a credibility crisis for the citizens of Puerto Rico that they don't deserve, and has significant negative financial implications for the Commonwealth that it can't afford. While the current administration cites prior administrations as the source of Puerto Rico's current financial and economic problems – it is this administration that is still failing to implement changes that would result in increased revenues and tax collections and reduced expenses for the Commonwealth and its Public Corporations.

Ann Krueger, the former IMF official that the Commonwealth commissioned, in her report and oral comments, clearly addressed many of these current deficiencies:

For example, electricity costs are higher than they would otherwise be because the electric utility is inefficient and overstaffed. I would also note that PREPA goes unpaid or underpaid by Puerto Rico's own municipalities and commonwealth electricity customers.

Revenue projections, tax policies, budgets and financial controls have all been unsatisfactory. And, according to a Federal Reserve report, the government fails to collect income taxes from informal economic activity estimated to be a quarter of the the total economy while, according to a KPMG report commissioned by Puerto Rico, collections of sales tax are estimated at only 56%.

Considering these and many other inefficiencies addressed in the report, it is clear that, by instituting effective reforms, Puerto Rico could stabilize its financial condition and encourage economic growth while ultimately honoring its financial obligations to creditors.

Looking specifically at PREPA, we and other creditors continue to forbear exercising our rights. Assured Guaranty, however, will only accept a consensual agreement, and the failure to achieve that will result in the full exercise of our legal rights and remedies.

While there's been a lot of debate about granting Chapter 9 access for Puerto Rico, bankruptcy is not an attractive short- or long-term option for Puerto Rico. Any bankruptcy provision would either impair market access or raise the cost of borrowing, divert attention from urgently needed reforms, and slow down economic progress.

Additionally, if any public corporation were given Chapter 9 authority to use, it would still have to meet the Chapter 9 insolvency standard, and this would appear to be difficult based on their current ability to collect unpaid bills, reduce staff and increase rates. For example, PREPA has not raised its base electricity rate since the 1980s.

Perhaps most important, bankruptcy courts have little power to correct the imprudent policies behind Puerto Rico's problems.

The reality is that Puerto Rico needs to take the necessary steps to assure the availability of funds for investment in economic expansion and debt repayment, and there are therefore many things this administration can and should do.

Bondholders for decades have invested in the development of Puerto Rico's hospitals, education, utilities, airports and highways. Forcing these same bondholders, including many Puerto Rican residents, to now pay for government failings is a bad policy for the people of Puerto Rico and the Commonwealth.

Puerto Ricans will be ill-served by a political class willing to gamble their commonwealth's economic progress by initiating a long, litigious conflict. Chapter 9 is not a get-out-of-jail-free card. Our transactions have strong constitutional and contractual protections, and we have an impressive record of fighting successfully to preserve creditors' rights. The preferred approach is to work with all constituents in good faith to craft a fair, consensual solution based on our shared interest in Puerto Rico's economic viability.

Although we believe there are effective ways to mitigate our potential losses in Puerto Rico, each quarter we evaluate troubled credits and establish a probability-weighted estimate of loss. While many details of Puerto Rico's intent with regard to its debt remain uncertain, in light of the governor's comments and other market activity, we have accordingly increased our Puerto Rico reserves.

In closing, we enter the second half of the year with a very strong balance sheet and as the leader in our industry. We alone have the strategic advantage of international and structured finance opportunities. And, if the Federal Reserve does raise its rates this year, as Chairman Yellen has said she expects, we should see further growth in demand for our guaranty across all of our businesses.

I will now turn the call over to Rob.

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

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

This quarter we recorded operating income of $278 million. The Radian acquisition generated approximately $235 million, or $1.55 per share in operating income, and an incremental $3.73 in adjusted book value per share. The primary components of the Radian contribution to pretax operating income were:

- $90 million of a bargain purchase gain, representing the excess of the fair value of net assets acquired over the purchase price;

- $159 million in gains on settlement of pre-existing reinsurance agreements between Radian and Assured, which includes the reassumption of Puerto Rico exposures; and

- $63 million in pretax operating income generated by the Radian portfolio, which included $28 million in net earned premiums from refundings.

Expenses directly related to the Radian acquisition were $12 million.

In addition, the acquisition increased statutory capital by $494 million and claims paying resources by $650 million.

Other noteworthy items in operating revenues for the second quarter of 2015 include net premiums earned from refundings of $68 million, which were in addition to the refundings on the acquired Radian portfolio. The Company also completed a reinsurance commutation resulting in a gain of $33 million.

Loss expense in the second quarter of 2015 was driven by economic loss development of $192 million. The largest component of the increase in expected losses related to Puerto Rico exposures. This resulted from the current developments in Puerto Rico as well as the Governor's speech at the end of June, which led to an internal ratings downgrades of all of the Company's Puerto Rico exposures. Total economic loss development also included a benefit of $47 million due to an increase in risk-free rates used to discount expected losses.

The effective tax rate on operating income in the second quarter of 2015 was 25% in the aggregate, and 33% excluding the non-taxable bargain purchase gain. This compares with 26% in the second quarter of 2014. The increase was due primarily to higher net earned premiums and the gain on settlement of pre-existing relationships related to the Radian Acquisition that were recorded in AGC, as well as higher loss expenses recorded at AGRe.

I will now address our holding company liquidity and capital management activities. As of July 31, we had $99 million in cash and investments at the Bermuda holding company and $89 million at the US holding companies.

With respect to share repurchases, we bought back 4.7 million shares in the second quarter of 2015 for $133 million, at an average price of $28.13. Cumulative share repurchases since January 2013, through August 5th, represent more than a 25% reduction in our shares outstanding. These repurchases have contributed approximately $3.99 to operating shareholders' equity per share, and our second quarter 2015 operating income per share is $0.38 higher as a result of these cumulative repurchases. As of August 5, we have $280 million remaining under our share repurchase authorization.

Overall, I am very pleased with the quarter's results, which included the achievement of one of the Company's key strategic goals to grow through acquisitions, and the continued repurchasing of shares at a significant discount to operating shareholders' equity.

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

## Question and Answer Section

**Operator**
The first question comes from Bose George of KBW.

**Bose George** - Keefe, Bruyette & Woods, Inc. - Analyst
Yes, good morning. Actually, it's – I want to start on Puerto Rico. Just given your comments on the internal downgrades and the reserving, is the reserving across the board for all the Puerto Rico exposures?

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO

Since we downgraded across the board, yes, it is. But understand, each still is a unique issuer with a unique repayment, I'll call it, opportunity, and therefore it's not a simple matter of a pro rata across-the-board kind of allocation. Obviously we judge each creditor on a standalone basis, as well as the adequacy, permanency, et cetera, of its revenue or ability to repay basis.

**Bose George** - Keefe, Bruyette & Woods, Inc. - Analyst
Okay, great. Thanks. And then, actually, when we think about sort of future dividend decisions, clearly you've got significant capacity. How does the fluid situation in Puerto Rico kind of play into that, if at all?

**Dominic Frederico** - Assured Guaranty Ltd – President & CEO
Well, I think as we said in the past, we are very much strategically aligned with the capital management program. We've been very dutiful in how we've exercised that over the recent period. We believe at some point in time the available dividends coming out of the operating companies will probably fall short potentially of our desire to continue to manage the capital, and therefore we will require then request a special dividend.

However, as we've said in the past, we are practical in thinking that a special dividend approval will probably not be available to us until some greater certainty is known and relevant into the market regarding Puerto Rico and its entire exposures relative to our Company.

**Bose George** - Keefe, Bruyette & Woods, Inc. - Analyst
Okay, thanks. Actually, just one more on Puerto Rico. If the timeline to resolution - is it pretty hard to kind of pinpoint that now, or can you ballpark it?

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
Well, I mean, I think you've got to look at it exposure by exposure. Obviously, if you went back six months ago, we believed that we were going to get to some resolution on PREPA. Sometime in the middle part of the year we got a partial resolution, but then of course the governor in June kind of threw all the credits under the bus, and therefore we now have more of a responsibility as we look to the total book. And things that we had assumed six months ago, like PREPA financing, et cetera, now has changed, and therefore we have to continue to change and adjust accordingly. So, I think it does extend the timeframe, long answer to a short question.

**Bose George** - Keefe, Bruyette & Woods, Inc. - Analyst
Great. Thanks for the color.

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
You're welcome.

**Operator**
The next question comes from Sean Dargan of Macquarie.

**Sean Dargan** - Macquarie Research Equities - Analyst
Yes, thanks. Good morning. As I look at your Puerto Rico exposure, it looks like your net par outstanding increased from last quarter. And I realize it's gone down a bit since June 30, but what's going on there?

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
Yes. The two major transactions, one was the Radian acquisition, and two, we did a recapture-reinsurance that also had Puerto Rico exposure. So, that added to it. And then, of course, you had the paydown subsequent to the quarter, which are obviously not reflected in the June 30 numbers.

**Sean Dargan** - Macquarie Research Equities - Analyst
Okay, thanks. And coming back to your comments, Dominic, about Chapter 9 and why it's not the best option for Puerto Rico, I'm just wondering why that wouldn't be a favorable option for you, given the alternative might be years of litigation and uncertainty.

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
Well, I look at it the other way around in terms of what's the favorable options for them. I think we stand in good stead no matter which direction this goes in. We believe that our rights under our revenue bonds specifically say we're talking about public corporations and PREPA are time-tested, court-tested, proven very strong, and therefore any deviation from that would require or will invoke significant litigation exposure and expense to Puerto Rico, which we don't believe is in the best interest of the Commonwealth, the residents, to any party included. We think that there are more than adequate ways to handle any restructuring in PREPA, and it's spelled out within the bond program, and we're comfortable with that.

Number two, under Chapter 9, once again no panacea. I think it does create real concern, and does, once again, hurt the credibility of a large borrower that still needs access to the market, or would still hope to somehow, at some day in the future, get access to the market. Once again,

this is not a positive for the residents or the Commonwealth by invoking that type of option.
And then, last but definitely not least, and good old number three, is we have a tough time even understanding how they can prove insolvency.

If it's required in the contract to raise rates, you have the ability to raise rates. And by raising rates in the electric utility, you solve the debt service problems. Once again, we'd be really concerned, and we'd absolutely litigate if any movement to file for Chapter 9 if one was granted on behalf of the electric utility existed.

**Sean Dargan** - Macquarie Research Equities - Analyst
All right, thank you.

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
You're welcome.

**Operator**
The next question comes from Peter Troisi of Barclays.

**Peter Troisi** - Barclays Capital - Analyst
Hey, good morning, guys. I just have a question on your below investment grade exposures. So, it looks like the largest non-Puerto Rico risk is, it's about $1.3 billion to Chicago Skyway. And I think some of that debt begins to mature in 2017. Could you just give an update on that credit as you see it?

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
Well, you're exactly right on the debt maturing schedule. You're exactly right it's in the below investment grade. We try to stay very, very far ahead of our credits. No surprises are the best way of looking at your company.

If you understand Skyway, it's a toll concession on a road obviously around Chicago. The concession goes to 2104. That is 2,104 year. Therefore, for us it represents really a liquidity exposure, and we don't believe an ultimate loss exposure. However, since performance is below that which we anticipated, and specifically the refinancing risk, when the deal was done, we consider it below investment grade.

But, our expectation is principally it's a payment potential in terms of when the maturities come due and have to be refinanced. However, it's economically incredibly viable, and we've been really pleased by the recent sale of the Indiana Toll Road which provides evaluation comparable that we think would really provide the ability for Chicago to ultimately get that refinancing, and therefore further reduce our exposure. However, we still consider it below investment grade.

**Peter Troisi** - Barclays Capital - Analyst
Okay, thanks. And then, just one other question. Look like Assured Guaranty Corp. wrapped some structured notes in July that S&P rated. Just curious, was that a refinancing or new risk? I guess what I'm trying to get at is how should I think about AGC strategically within the organization in terms of its status, whether it's in runoff or potentially writing new business?

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
Okay. So, if you understand our structure, we have two companies that are dedicated to the municipal market in the United States, that being Assured Guaranty Municipal, AGM as we call it, and MAC, Municipal Assurance Corporation. They face the US municipal market predominantly, and that's where we write that business.

AGC is the company we now face the market with on a structured finance basis. And obviously, as we've said and mentioned in the call, we're the only company that maintained kind of a product and license and presence in that market. And although the production has been sporadic, we believe much like most of the rest of the portfolio, it is still primarily impaired by the low level of interest rates, the competition for yields by investors in the market. And as interest rates turn around, AGC will be a huge beneficiary of that.

It does other things, like capital arbitrage. It does -- well, then, we also refer to as bilateral private deals. So, it does have a business plan. It's not in write-off. We think it has good opportunities as interest rates rise and more of the structured finance market, securitization market comes into play. AGC in the quarter, though, remember, did assume all of the Radian business. It was consolidated into the AGC organization.

**Peter Troisi** - Barclays Capital - Analyst
Okay, thank you.

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
You're welcome.

**Operator**
The next questions comes from Geoffrey Dunn of Dowling & Partners.

**Geoffrey Dunn** - Dowling & Partners - Analyst
Thank you. Good morning.

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
Morning, Geoff.

**Geoffrey Dunn** - Dowling & Partners - Analyst
Obviously we're dealing with a lot of headlines day-to-day. So, Dominic, can you,  for the next four months, what are the dates or events we actually really need to be focused on?

**Dominic Frederico** - Assured Guaranty Ltd - President & CEO
Well, once again, Geoff, since this is Puerto Rico all the time, let's go back. So, we've got the forbearance expiring on PREPA. Everybody's working hard, as you can appreciate, in a confidential matter behind the scenes to get that deal done. The government has its own imposed deadline from the standpoint of its financial plan, which is due by September 1.

So, I think they are the two most critical, the forbearance agreement on PREPA and the first blush of whatever this special committee of the governor that's going to come with their own five-year financial stability plan, which obviously we're going to be very interested to take a look at. Obviously we're going to be a huge part of it, I would assume, so I think there are the dates that I would look to. So, we're probably going to be quiet for the rest of the quarter until those dates that come into play.

**Geoffrey Dunn** - Dowling & Partners - Analyst
And I think you do have your P&I schedule out there, but in terms of scheduled maturities or payments through January 2, what do we have to be watching for specifically to AGO?

**Dominic Frederico** - Assured Guaranty Ltd – President & CEO
Well, we're pretty much PREPA-light, and so far we've not missed any other payments on the rest of the obligations. Obviously the payments subsequent to June 30, which are not reflected in any of the financials, have been made. As you well know, there's only been one default, obviously - it wasn't something that we have any exposure to, and obviously it was that appropriation bill. So, the rest of our payments throughout the rest of the year are not significant. I think we have a GDB

payment due December 1 for somewhere around $33 million. I've got 85 people writing on pieces of paper, Geoff, so hang in there. Of course, we have the PREPA note, as Mr. Donnarumma just points out to me, but that's not due till January 1, I think.

So, for the rest of the year, we have a pretty quiet schedule. Obviously we have the detail in our supplement, but it's pretty much PREPA-light and most other things light.

**Geoffrey Dunn** - Dowling & Partners - Analyst
Great. Thank you.

**Dominic Frederico** - Assured Guaranty Ltd – President & CEO
You're welcome.

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

**Robert Tucker** - Assured Guaranty Ltd - Managing Director of IR
Thank you, Operator. I'd like to thank everyone for joining us on today's call. If you have any additional questions, please feel free to give us a call.
Thank you very much.

**Operator**
And thank you. Today's conference has now concluded, and we thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.