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Assured Guaranty Ltd.

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Robert Tucker: Good morning. I'm Robert Tucker. I'd like to thank all of you for joining us here today. I'd also like to thank J.P. Morgan for inviting us to speak. Further, I'd like to remind you that all our comments made today are covered under the Safe Harbor provision of the U.S. SEC. Please note that if you are listening to a replay of this presentation or if you are reading the transcript of the presentation, our statements made today may have been updated since this presentation. Please refer to the Investor Information section of our website for our recent presentations, SEC filings, and the most current information on our Risk Factors. With that, I'd like to turn the presentation over to Dominic Frederico, President and Chief Executive Officer of Assured Guaranty.

Dominic Frederico: Thank you, Robert, and good morning. I'm going to basically review the company, some of its critical strategies that we've been employing over these past few years, and then go a little bit into what we see for the future. So---- slide is backwards from here. I guess I won't rely on reading that. Okay, that's challenging. So anyway, as you can see from the slides, the company is in strong financial position after having come through what I think most of us will realize would probably be, in our experience, the toughest financial marketplace that we've ever been into. Thank you. And I can see that one the better. Thank you.

Total investment portfolio and cash of $11.2 billion, that actually equates to $57.85 a share for those of you keeping score at home, which obviously is a pretty strong number. And as you know, half of that's equity roughly and half of that's unearned premium reserve, which is our money as we just earned out over the life of the insured obligation.

Shareholders' equity is approximately $5 billion and claims-paying resources are at $12.3 billion, which has held kind of steady throughout the entire period of what is the worst experience from a monoline point of view and obviously from the RMBS or residential mortgage marketplace. As we look at the company and start to break out some further numbers, as you can see, in spite of the economy, we managed to put up on average half a billion dollars of operating income over the last three years. And you might point out while it's a decreasing level, that's obviously as our insured portfolio’s running off and not replaced by new business. And as we look at the business environment today, 0 interest rates, very tight spreads, still some uncertainty created in the industry in the marketplace because of the volatility of ratings, which we would always say to you is unjustified. And I'd like to sit on that rating agency panel. Boy, I'd have a field day with questions on that one. But, you know, the performance of the company hasn't changed. The performance and the results continue to generate. And, obviously, as our unearned premium reserve runs down, it will pressurize the bottom line, but that's why we have some other strategies that we'll talk about further on in the presentation.

If you look at the other two critical measures beyond operating income, you know, we're quite proud of the fact that our adjusted book value continues to rise. And although the per-share amount decreased, it's because of the conversion last year of some convertible units that added about 13 million shares to the outstanding, it still represents, you know, a good, solid track record of proven performance even in spite of the economic dislocation in the marketplace.

If we can maintain this type of momentum in the worst case of an environment relative to trouble in the municipal market, trouble in the international market, obviously some concerns over the still performance of residential mortgage-backed securities. You know, as this market cures itself, the economy recovers, hopefully, interest spreads widen. We think it's a great opportunity to further build the franchise in the marketplace and our company.

As I said, we've had a track record, we believe, of having a principle of efficient capital management. Everybody’s going to say say, "Well, geez, I don't see that because it seems like you guys have been hoarding a lot of capital." Well, remember our first goal was to maintain the highest ratings available to a monoline insurer, and that dictated a lot of capital processes and procedures that we had to deploy to try to maintain ratings that we felt allowed us to do business.

As we've now seen that and started to create excess capital now, we said, "Okay, as an efficient capital manager, I should begin to start returning that capital to my shareholders." So the first example is what you see on the page in front of you, which is obviously the significant increase in the dividend, say, over the last 15 months. We have raised it 122%. Obviously, we believe some combination of dividend to provide a reasonable yield on the stock, as well as stock repurchase, are two very powerful ways to put value back in the shareholders' hands.

Additionally, you know, as we looked at value now back into the company, we said, "Okay, we realize we're in a tight business environment. We've got this uncertainty over ratings. We've got tight spreads, low interest rates, you know. How else can we continue to move our ball forward in terms of creating economic value that will last on the financial statements and earn over a period of time to try to replace the loss in new business volume?" So one of the strategies we came up with was recapturing our own reinsurance.

As you know, our company is made up of principally two old operating companies, the old FSA and the AGC company. FSA was a large user of the reinsurance market. Obviously, it's good business, as you can see from the results that we just went through, in terms of operating income. So we have been selectively going out and recapturing our reinsurance. And as you can see, in the last year, we captured $19.2 billion of par, roughly around $200 plus million of premium. So if you add that to the premium we wrote, which is about another $200 million, you had a $400 million a year. Obviously, not the greatest in the world, but still a very representative number, and we'll continue to continue to advance our financials, which is that number called adjusted book value you're adding to the future earning power of the company, in spite of losses and other things that have happened.

Obviously, the primary way we create economic value is through new business production. But as I said, you know, we're successful where we can be successful. You know, we've been hit with two things in this market beyond just low interest rates and tight credit spreads. You know, we've been downgraded, so the value that we can provide for issuers has been narrowed to a smaller segment of insurers. And at the same time, in the municipal market, a lot of municipals, say, over the last five years, have been upgraded. So, predominantly, today, in the U.S. municipal market, about 50% of all municipals are either rated AA or AAA. So you've taken out a lot of market share. Now we believe gravity does exist, and therefore, things that go up come down; things that go down can rise. So we think that there's going be further opportunity for us to penetrate the market as we improve and hopefully get some better ratings back, and we'll set aside Moody's for the time being, you know, we'll see more of an opportunity. Interest rates alone will create a significant opportunity.

If you look at our product, our product is bought for three basic reasons. First and foremost, we typically save the issuer financing cost. Well, as you can understand in today's market of low interest rates, tight spreads, that number is not very significant today. And since we do require covenants or restrictive behavior in our deals when we sign them, the argument of an issuer to say, "Boy, if I do sign this, I have to provide you with debt service reserve. I have these cash flow triggers that you can come in and look at the management of my operation, you know, for a 5 to 10 basis point savings. I'm not so sure I want to go through that." In the old days, when we save, you say, 40 to 70 basis points, you'd be more than happy to go through that. And also if you look at the aggregate value of interest rates today, people are borrowing in the municipal market below what the wrapped execution was, say, in 2004, 2005 and 2006. So you're borrowing at historic lows. So that first reason of buying municipal bond insurance has really taken a pretty hard hit.

Second reason people buy is because that's the only way they're gonna get access to the capital market. That's typically for issuers that just either you know, are not well known or not putting out a large economic size issue, where that issue will typically go to retail. To get to retail, typically, they'd like to have insurance, so you can tell your client that it's a AA bond. In the old days, you told them it's a AAA bond. So that market still exists for us, and a good example of that is one of the bullet points here that, you know, last year, we wrote about 30% of all A-rated issuance. That's a significant, you know, achievement and a very strong statistic.

The third reason obviously why people buy insurance is 'cause they just wanna have the protection of insurance, and that's more from the investor side. And obviously, a lot of our targeted at advertising now goes to the investor. To try to prove the value of the product, we point to things like Harrisburg; Jefferson County; Stockton, California, where all bondholders are still getting paid their timely principal and interest when due because those issues have insurance.

We continue to look at the international and our structured finance markets as opportunity. Our structure today, obviously, we don't do residential mortgage backed anymore. Although there's been improvement in the marketplace in terms of economics, we're still concerned about the process and the level of controls. For those of you that might want to ask the question, we've been asked to get into the MI business. I can't tell you how many times. We've taken a hard look at it, and we just don't think it meets our risk model. That because of the correlation of real estate, kind of across any type of security or risk product, you know, correlation is one of the things that does hurt. And even if you got large capital, you know, correlation of certain level with a major economic setback could still create a significant loss, and the whole idea is to engineer this company, so we can't take a significant loss.

We do look at opportunities in the current year, kind of in the structured area where we provide, you know, true financing for kind of the assets you can kick, so typically cars, equipment, you know, containers, that kind of stuff. Two, we still have a reasonable active market in specialty products like loss reserve financing. And lastly, you know, with where capital requirements are moving across all financial institutions, there's a great opportunity to begin to arbitrage their capital models using our balance sheet.

One of our favorite economic creators has been, over the last three years, the rep and warranty activity on RMBS securities that have, obviously, gone sour; have seemed to violate the original covenant of when we insured the deal, and we continue to make great progress. Obviously, I think we set ourselves apart from the rest of the industry in our strategy as we looked at this thing three years ago, when we decided not to go for litigation and not go for fraud dismissals, but just do the basic groundwork, you know, I'll call the detail work, of looking at loan files, identifying breaches, billing back those loan files, and then standing on the language in the contracts to force execution. And obviously, when the counterparty refuses the execute, as a last resort, we would go to litigation.

As you well know, we did go to litigation last year against a counterparty named Flagstar Bank. And hopefully, you're all aware we got 100% verdict in that case. We think that was, obviously, what we would expect. If you read the contracts, they're very clear. And I think that hopefully sets up an environment where the rest of our kind of slow-to-come-to-the-table counterparties will see that and begin to act a little bit more honestly or not---- diligently in trying to get these things resolved.

As you can see, the kind of numbers we show, today, we have roughly about a $1.4 billion asset on the books. It's probably the smallest in the industry. That asset is about $500 million of it's secured by collateralized trust on reinsurance arrangements. Obviously, that's our preferred way of executing because not only does it pay you back for past loss, but also takes out the curve going forward and provides capital value to us to the extent a rating agency or someone else assessing capital decides to stress the residential portfolio.

Another strategy we were able to execute to continue to create value, and this was unique to Assured in a way as we went into the market and where you had these dislocations of pricing, took advantage of it and bought back our own insured securities. Now, when you buy back your own insured security, it seems kind of silly, but it's actually a powerful, powerful tool both in what it does currently for the balance sheet and what it sets our future for the company in terms of earnings. And I don't look at the motivation of the reasons for the sales. We just try to take advantage of those.

So typically, we'll go in the market on a daily basis and look for securities, typically in the asset-backed field, where based on people looking at index and other pricing feels a certain way or flavor or value to the deal or to the security. We obviously have the individual statistics, so I could tell you what our expectation is of the value of any bond out there that we are insuring. If we see the value of the trade is less than the value of the bond, we buy it. What that does for us is, to the extent that there's a loss embedded in that trade, we then get rid of the loss 'cause we bought it below the value that we assess at. So, in other words, it takes away the reserve.

The second thing it does is it puts an asset on the books that has a future value that will accrete up to the value that we believe is in the collateral. So this has become a very, very powerful tool. And although you really can't see it as an unearned premium reserve or something that you can point to as deferred revenue, this would just come in as enhanced yield on our investment portfolio because these things sit there in a kind of a dedicated area of the investment portfolio.

The other thing we did, and this was really started more from a rating agency creation than anything else, is we said, "Okay, as we're under pressure from the rating agencies, they want more capital, we don't want to raise capital 'cause you can appreciate what our share price has been over the last three years. How else can we go out there and create capital?" So one of the ways was we targeted deals that had no economic loss to the counterparty, but had a capital charge to us and, therefore, negotiated a settlement of the deal. In a lot of cases, the counterparty also was feeling some reason for them to have to look at the security of the sell, transfer it into another operating entity, and our deals are typically you have to hold the security. So that gives us an opportunity to go out and further benefit from these termination activities. And as you can see, we terminated roughly $17 billion of par, and the good news is, we kept the majority of the economics even in that scenario. So, you know, two good things happened, got rid of par, lowered your capital requirement which then gave you more flexibility to manage capital and also recognize some accelerated earnings.

Where is all this getting us to? Well, with the RMBS work and rep and warranty, with determination work with the typical amortization of our portfolio, as you can see, our below investment grade has finally kind of peaked and has now begun to come down, which you would hope to see. Still, the majority of the below investment grade is residential mortgage-backed securities, about $10 billion, almost half, and our view has always been corporately that that's a nice number. It's a statistic you can look at. But we, Assured, do not believe we're gonna pay the majority of those losses if much of those losses at all, and the Flagstar decision is another good example of where we get that comfort level from.

Now, that we looked at too, and this speaks to future capital adequacy, is you know, one of the criticisms of this business, of the monoline kind of structure is you're highly leveraged. Well, the idea is you are, but it's a very diversified portfolio, and each of the risk that we take typically, if they have a loss, have a very low severity. Now, you can point to residential mortgage and say, "Well, that wasn't the case." And you're exactly right. But that's why you now have the rep and warranty opportunity activity you do, which after you net out the rep and warranty, that loss would be kind of de minimis---- not de minimis, but at least absorbable in the normal earnings pattern of any company. So if you didn't do CDOs of ABS, which neither the old FSA company or Assured Guaranty did not do, those highly leveraged structures that you could have a very terminal loss in each and every security that you insured - and just did basic RMBS, it was not a fund. You paid a lot of losses, but now, you know, the expectation is you're gonna recover the majority of those losses, so that the ultimate loss you take would kind of fit into our model of expectation of loss activity even in a down-cycled economy.

But once again, to address the leverage front, we work very hard at reducing the leverage of the company. And as you can see on the numbers there, you know, that leverage will come substantially down. Now, you're, you know, kind of looking at that saying, "Well, that's good news, you've de-levered the company, but at the same time then you've really affected your economic model in terms of earnings." You're exactly right. So we don't see increase in the business activity, which at this point in time, we do not forecast. We do forecast slight, but it's pushed out now probably to at least 24 months, then you've gotta manage your capital. If your economic valuation's got to come down, your capital's got to come down to meet that, so that you're still providing a reasonable return on equity invested to our shareholders.

So we've plotted for you the share price against our operating equity per share. And as you can see, it's starting to make a bit of a comeback, but still, you know, significantly below where operating book should say it would be. Now, a lot of people trade below books, so we can appreciate that. But if you look at our book, you know, and especially adjusted book, you know, we say our metric should be adjusted book, because if you think about the only difference between this and the adjusted book is basically earning the unearned premium and minus the tax expense against it. But that's cash today. It's money we have. It's money we cannot give up or lose. It's earnings that are gonna be there. So even if we shut the door and don't do any new business, we're still gonna earn between $5 million and $800 million over the next five years per year. And with $400 million of investment income, you're looking at, you know, an economic enterprise that will create, you know, on average, about $1 billion of revenue, without even having to say hello to a customer.

So, with that, we still understand it will put pressure because the capital will continue to grow as you make those earnings, so you've got to do something with that capital. And that's why at the end of---- or at the beginning of this year, we authorized a $200 million share repurchase. We did say that was the initial share repurchase. We will execute that. When executed, we will continue to provide further authorizations for share repurchase. The only limiting factor is how much cash, free cash, we can get to the parent company in Bermuda. We talked on our earnings call, we've got strategies in place that we're executing on to free up more cash, more capital into the

Bermuda holding company. So that we continue this share repurchase activity, and continue to monitor it against business opportunities that we see in the future.

Obviously, another goal we have in '13 and '14 is to consolidate the rest of the industry. We've got a lot of franchises out there that still hold portfolios that are not trading and probably will not trade. Those portfolios now technically are in the hands of their counterparties 'cause that's how they had to settle out some of their obligations. They had to give up the equity ownership of the company, and we believe those companies will represent for us a good opportunity to go in and basically relieve them of this long-term service obligation. And we've got the infrastructure, obviously, the people in place and the capability of handling those portfolios and also the capital.

Now, these portfolios will be pretty good from the standpoint of capital because, although the problems would have theoretically worked themselves out by the time we see the opportunity to purchase them. I think that's as good as I'm gonna get on my get on my---- oh, so looking forward to the future, sorry, we do have kind of, in summary, what do we see going forward? Well, we're gonna do the same thing we've been doing 'cause it hasn't, you know---- it's done us very well, and we're gonna continue that. So, obviously, new business production. We think we'll still be pressured in the States.

We actually expect 2013 to be a reasonably good year in the international markets. You know, we're seeing a lot more of the international infrastructure looking for a capital market execution instead of just a bank debt execution. And we've been given a lot of submission opportunities. We've got a few mandates. We're hoping to close some things in this year, and obviously, that will show more comfort and confidence as those numbers start to actually hit our bottom line and top line. So we expect to see a better international market than we've seen.

The U.S. structured market and the U.S. municipal market will still be pressurized by money that's available to invest, the search for yield. Obviously, the lack of our ability to put our terms and conditions on certain programs or deals will keep us out of that market, so we expect production to be still, you know, pretty muted in those areas.

We will continue to go after and pursue our rep and warranties. As you well know, we've been pretty aggressive at that, and we've got probably two major counterparties and probably three small ones that we're working very hard to try to get settlements on. We will continue the bond purchase program, although as our spreads have tightened significantly, the amount of discounting out there on some of our securities is starting to disappear. And we've actually kind of changed our strategy. So, on day one, when we did this, we said, "Let's go out there and use it to loss mitigate. Buy back securities that we think have a loss, buy it below the intrinsic value of what we think is the collateral. It's a win-win."

Then, we started to say, "Well, now we are getting a little concerned over capital from the rating agencies, not from our point of view 'cause in our capital model, obviously, we're more than adequately capitalized." So, then, we started looking for deals that we could buy, where there was a huge capital relief. So we changed our perspective and our strategy and then look for high cap deals.

Then, lastly, as we kind of cleaned those out, we said, "Well, if you look at where new money is getting invested today in our portfolio, it's very low. Why don't we, even on the shorter end of the scale, go out and buy our securities that have short durations." Even though there's not a huge implied discount, any discount will enhance the yield. And since it's our security, we're not adding any more risk to our portfolio, yet increasing our yield on the portfolio. So it's another win-win. And that's why you kind of see our portfolio can actually tick up in overall yield because of the amount of money that we put into the purchasing of our own insured securities on the short-term basis at a discount to enhance yield.

We will continue to look for agreements to terminate. Today, it's more, what I'll call, negotiated, we still have a lot of---- especially the European banks, which is one of our largest counterparties. They're still looking to manage capital and mitigate risk. So they're coming to us with proposals to move things around. That gives us a great opportunity then to specifically target deals that we want to either terminate or we want to buy back from them at a reasonably discounted price. So you'll see activity of that in 2013.

Last couple of things I'll mention. We are going to begin, and we're going through the steps now, to make sure that a company called Municipal Assurance Corporation, a company that we bought---- it was used to be called MIAC, and we always say there's no "I" in MAC, so we got rid of the "I." That would be our muni-only platform. It will be capitalized at roughly $800 million. It will be owned by the two operating companies. So it's mother-son, not brother-sister. So from the standpoint of statutory and regulatory, it's good all value right up to the operating company. So this is not trying to separate anything away.

They'll basically take a portfolio of risk from both operating companies so the portfolio is leveraged or the capital is leveraged. So you're not wasting capital. You're still utilizing your capital as efficiently as you are through the entire organization. So your ability to still have excess capital and use it against share repurchasing a dividend is still gonna be there. But it gives us a very good tool to have in the market because if we look at the market, one of the things we think is holding back demand is from the institutional investor, who said, "You know what, I'd rather get insurance from a municipal-only carrier. We'd like one with size, experience, liquidity, a recognized name; therefore, it makes sense for us to be in that market."

Number two, it obviously gives us a very good competitive tool 'cause as we view the market for U.S. municipal, the only competition we can see coming down the road would be on a muni-only basis as well. So this gives us kind of our stake into that side of it. So we're moving through all the regulatory approvals, licensing, etc., and hope to be selling business in MAC somewhere in the second half of this year, hopefully, in the very early second half.

Last, as we talked about a couple of times, you know, we will continue to manage the capital. We're looking to share repurchases and higher dividend. Obviously, we increased the dividend. We've announced the share repurchase. You'll hear, when we do our first quarter earnings, how much of that share repurchases was actually executed in the first quarter of the year, and we will continue to update that on earnings calls, but I think, you know, you'll then get an idea of what the momentum is, how much we anticipate and will try to buy back in the current year. And obviously, as I said, you know, we understand that as looking at the dynamics of the company, the opportunities in the market, where we stand vis-a-vis risk and leverage, you know, our capital has got to come down proportionally to continue to maintain a reasonable return on our equity. So, with that, I'm done.

QUESTION: Open now for questions. I'll start up with one, Dominic. You mentioned that you're not particularly interested in the MI business. By all accounts, it looks like that business trends have improved over the past few years, the players that are in that business are very weak. Wouldn't this be a good opportunity to get into that line of business when rates are going up? It's almost like the Bermuda start-up company that came after 9/11 or after Katrina whatever else without any legacy issues, good rate environment. Why wouldn't this be a good opportunity to expand beyond your existing line of business into some of these other lines?

ANSWER: We get that question a lot, so hopefully, I've got a pretty good answer for it. Because, as we talked, it really still doesn't meet our risk model. So I agree with everything you said. No legacy, good marketplace, good pricing, a lot of weak participants. The sad part is, though, in difference to our industry, the weak participants were still allowed to participate. So even in light of bad things happening, everybody or most people still traded through. In our business, if you really took the kind of losses that they were taking, you wouldn't be able to trade through. So there wasn't a real detriment to your bad behavior. So you never wanna be left in an industry where your worst competitor is your toughest competitor type of thing. And that could exist, but that's not the major reason. As we look at the risk, we still say it violates the one big premise in that it's got too much correlation. You know, it's 100% correlated. And we had a great discussion. I mean, we have a good, strong senior management team. Trust me, we go through everything pretty religiously. And the MI thing probably got the most debate we've seen over the last couple of years, and we all walked away with the same feeling. We said it's a good business today if you are able to say I've got a sell-by date or an exit date that is certain. So I can exit this business cleanly in 2019, for the sake of argument, because cycles exist in every industry and every business. Then it might make sense.

Or, you know, Rob and I used to do the old MI reinsurance back when we were younger men. And you say, "Well, if we could do them on an underwriting-year basis, on an excess capacity, that might make sense." But to get into the rank-and-file, one, you need the relationships that exist in the market. Now, we could have probably bought one of them, and we were offered a few of the companies at many points in time. So, maybe, you can get over that hurdle, a lot of infrastructure, maybe get over that hurdle. But we still winded up with that risk problem that said, "Okay, let's look at the macro. If unemployment goes above 10%, do you expect to have losses in that portfolio?" And we'd say, "Yeah, but probably just a scratch, you know, scratch in a day. You'll absorb that in normal earnings, no big deal." Unemployment breaks 12%, you're probably looking at a reasonably large loss, probably a quarter's worth of income, maybe a little bit more. Under---- Unemployment breaks 15%, and you're looking at potentially risk of ruin type of loss. And all of us look at each other at the table and said, "Okay, who's gonna take the responsibility to ensure that unemployment never goes above 15%?" And since none of us could answer that question cleanly and because you have a fully correlated risk no matter how diversified you think your mortgage portfolio is, it isn't, it hangs on both sides of the coast and into the center, right, is kind of the barbell of it, you can't get around that no matter what you do.

So we said, "Okay, it really doesn't match our risk profile." The amount of capital we would need to hold to make sure that we would be obviously financially impenetrable from the point of view of our capital just didn't make sense for us. Now, the excess, if we ever decide to dust that off, maybe that makes sense on an individual underwriting year basis. And you can look at every year and say, "Okay, what do we expect?" And you say, "Geez, for the next three or four years, we expect that to be a very good market. Beyond that, you know, I really can't tell you." And now we're still concerned about that unemployment problem, because we haven't really significantly addressed that no matter what anyone---- and I'm sure everybody else has an opinion in the room about, you know, where is this economy going? How good is it gonna be to reduce the chronic unemployment that currently exists today? And, you know, does that have a feature in the future that we're concerned about? And the answer to all those things is, "Yeah."

QUESTION: Dominic, could you talk a little bit about capital management priorities because it seems to me, at least, that, you know, even on an operating book value basis, you're trading at the highest level, 2/3 of book and on an unadjusted basis, 50% or below. So the IRR in buying back stock is very good. And so talk to me about how you can---- you know, you look at the different priorities 'cause it seems like, right now, that seems like a really great opportunity and why $200 million is the right number. It seems to me it should be much, much higher.

ANSWER: Well, good question. So, first thing I'll tell you, it is priority number one. It's priority number one, it's priority number two, it's priority number three, it's priority number four. And if I was smart enough, I would have worn a T-shirt, so I could rip it open and say, "Buy back stock," would be on it, and you could get the joke, right? Why $200 million? Because remember, we have this little interesting part of Assured Guaranty that we're a Bermuda-based holding company. And therefore, you can only buy back as much free cash and capital you have sitting in the holding company. And although we have strategies that will continue to increase that amount that we still have to execute, and there are some things that we have to go through to get there. We've got to give it out as it becomes available.

So the one thing we will be very honest with you is we'll tell you what kind of amount that we've had in the buyback, so you'll see exactly what the execution period is. And then number two, as we clear these hurdles and, therefore, free up that available cash, we'll tell you that. And the hurdles revolve around our structure, revolve around our tax position, revolve around the reinsurance agreements that the operating companies have with the Bermuda entity, regard around funds withheld, and how they're constituted for statutory purposes. So you think in those broad terms that we've got kind of a strategy to address each of those to free up that cash that we think we need, you know, we will continue to announce that. But we agree 100% with you that it is priority one.

SPEAKER 1: Other questions? Excuse me.

QUESTION: Dominic, you talked about the unemployment level reaching 15% on a potential MI portfolio. Can you reference that to your FG portfolio?

ANSWER: Very interesting question. So we looked at the FG, and we said, "Okay." Other than the RMBS, the residential mortgage-backed book, where we got to, and you could argue what was the real number of unemployment over these past three years, created virtually no loss in the company. And even on our structured side, so our pooled corporates did fine, marvelously. Our basic, assets you can kick, the subprime auto, leasing, all that stuff did absolutely fine, no losses. Obviously, we had some issues with our trust preferreds, but even those have improved substantially, right? And we paid out very little money. So, once again, less than anything you would actually notice in a quarter beyond normal quarterly provision. So we felt---- and then we stressed it ourselves, 'cause the one thing we did do when all this was going on, we said, "Okay, we gotta build a company that no matter what happens, we're not gonna have to go to the market for capital." So how do we do that?

So we took a hard look at the composition of the portfolio and broke it down by segments. And in the old days, we were like 70% public financed, less than that, 66%, and 34% structured. But the 34% was too highly weighted to pooled corporate and RMBS. So I said, "Okay." As we then---- and our stressing was six notch downgrades. So we said, "Okay, let's run our portfolio and take everything down six notches. What it does to the capital and what do we need as a mix to survive with, say, a $300 million to $500 million cushion of capital, we wouldn't have to worry about ratings, needing capital, etc." What happened was we came to a number that said 80% of portfolio should be public finance, and we're getting pretty close to that today. 20% can be structured, but the structured has to be that no individual segment is greater than 4% of the total. So right now we're still way over on pooled corporates, so we'll continue to run that book down or aggressively go out to try to manage it down.

Obviously, trying to put in more of the, what I call, the stuff you can kick because we really firmly believe that if you look at our structure and how we engineer a deal, even in spite of this economy that we had to go through in say '09, '10, '11, those deals really suffered no deterioration. So the way we structured subordination, the way we structured triggers, the way we moved cash flow around, the amount of triggers tripped really has managed our risks well. So we're comfortable in our portfolio and we try to stress it up to every level you can possibly imagine that our structured would perform very well in the 15% because we're not a first dollar loss. Go back to MI and you're basically a first dollar loss. You know, even in our residential pools, you know, on average on the first lien stuff, we had probably subordinations between 17% and 30%. So you say, "Well, the 17% turned a little thin." But when you had an expectation of 6% to be the average, you know, annual loss that you would ever have in those deals---- I mean, we saw these some deals we'd looked at back in '08, first payment defaults were like 17% in the deal. Think of it. The guy got his mortgage booked, threw it right in the trash can. How could that happen? Then you say, "Well, that does happen, right? There's the old hit by the bus theory, right? Somebody in good faith, he got a mortgage and either, you know, suddenly died, got a dreaded disease, you know, lost his job, etc." You know that that's out there, but that's like a 1% risk. Here, you are---- we had deals with 21% first payment defaults. So, as we manage the books, stress it, we did the six-notch downgrade, we think that that number kind of will stand the test of a 15% unemployment.

QUESTION: Thank you. Looking forward to capital at the various entities throughout the enterprise, how does the introduction of MAC affect capital AGM and AGC? Do you expect capital to be higher given that it's the owner of MAC? Or should it be lower? How are you thinking about that? And then separately, you know, same with portfolio leverage at both those, should that be improved, or how should we think about that?

ANSWER: Okay. So the interesting thing in the way we engineered MAC was that it's taking a very substantial portfolio session from AGM and AGC. So if you look at leverage in the firm, it basically is equal among all three operating companies.

So, in the theory of excess capital, kind of excess capital now gets divided proportionally. It really doesn't because the MAC deals are a little bit higher quality than the rest. So there is a rub of capital that we're gonna guesstimate, and this is a pure guesstimate. It's maybe a couple of hundred million dollars. But the rest of it is as leveraged as everything else in the portfolio 'cause we did it to specifically make sure that we did save our excess capital position.

Number two, as you look at 2013 and I showed you where the leveraging of the portfolio goes, we will create excess capital everyday of the week, every month in the year. If we did nothing just through the amortization of the portfolio, and of course, the structure is what's running off the fastest and I would, you know, refer you to our supplement where we show you the structured runoff. You know, it's substantial over the next three years, and then that doesn't include any further capital benefit we'll get through rep and warranty settlements. When we negotiate these things typically, we get paid back for some of our past losses. Well, that's revamped capital.

And two, the counterparty takes responsibility for a seg---- big segment of future losses. Once again, that frees up capital. So we think the capital rub that we lose by putting a good---- a different portfolio in MAC of all muni versus the other guy still have structured, that rub of capital that kind of gets lost in that shuffle, we try to make it up by making sure leverage is the same. But then the second thing is, we will create, you know, excess capital every quarter, and therefore, we will still be in a great excess capital position to allow us to execute stock buybacks.

QUESTION: [inaudible] for 90%---- I mean 10% structured given what happened the last five years and all this excess debt that's out there and uncertainties?

ANSWER: You know---- good question. And as I said, we try to do it clinically, like formulaic, and come up with a number. If you really look at what happened these last few years, once again, if you take back the rep and warranty and net it against your losses, I would tell you structured business did absolutely marvelously through the entire cycle. And we---- if everybody had paid their bills on time and if the rest of the monolines didn't do CDOs of ABS, we wouldn't even be having the conversation. We would have just absorbed those losses in the normal context of quarterly earnings without much of a beep, and yeah, maybe, ROEs would have gone from 12% to 8.5% or 7%, but everybody would have been fine. So that's what, you know,---- And we've looked at that number and rounded it, you know, a number of times. We're very confident that that's what exists. So we're quite happy with that business anyway. Thank you.

SPEAKER 1: Folks, we're out of time now. Dominic, thank you so much for your time.