

ASSURED GUARANTY LTD
Form 10-Q/A
November 14, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

Amendment No. 1 to Form 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2011

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition Period from _____ to _____

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction
of incorporation)

98-0429991
(I.R.S. employer
identification no.)

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30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(Address of principal executive offices)

(441) 279-5700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of registrant's Common Shares (\$0.01 par value) outstanding as of November 4, 2011 was 182,228,965 (excludes 76,060 unvested restricted shares).

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Assured Guaranty Ltd.

Form 10-Q/A

Explanatory Note

This Amendment No. 1 on Form 10-Q/A (Form 10-Q/A) amends our quarterly report on Form 10-Q for the quarter ended June 30, 2011, which was originally filed on August 9, 2011 (Original Form 10-Q). This amendment is being filed to include restated financial statements as described in Note 2 to the consolidated financial statements contained in Item 1. Financial Statements, financial data and related disclosures. The Company is restating its previously issued consolidated financial statements as of and for the quarters ended June 30, 2011 and 2010 to reflect the Company's determination that it did not properly account for the elimination of intercompany activity between the Company's insurance subsidiaries and its consolidated financial guaranty variable interest entities. Included in this restatement is the correction of other immaterial errors which affected the quarters ended June 30, 2011 and 2010. The total effect of this restatement was a decrease to equity of \$36.1 million and \$65.3 million as of June 30, 2011 and December 31, 2010, respectively, an increase to net income of \$15.1 million and \$30.3 million for the three months and six months ended June 30, 2011, respectively, and a decrease to net income of \$24.4 million and \$12.9 million for the three months and six months ended June 30, 2010, respectively.

As a result of the errors discussed above, management has now determined that the Company had a material weakness in its internal control over financial reporting at June 30, 2011. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. For a discussion of management's consideration of the Company's disclosure controls and procedures and the material weakness identified, see Part I, Item 4, *Controls and Procedures* of this Form 10-Q/A.

In accordance with the rules of the Securities and Exchange Commission (the SEC), this Form 10-Q/A sets forth the complete text of the following items of the Original Form 10-Q as modified where necessary to reflect the restatement:

- Part I Item 1. Financial Statements;

- Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations;

- Part I Item 4. Controls and Procedures; and

- Part II Item 6. Exhibits.

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In accordance with rules of the SEC, this Form 10-Q/A also includes as exhibits certifications from our Chief Executive Officer and Chief Financial Officer dated as of the date of this filing.

Except for the items noted above, no other information included in the Original Form 10-Q is being amended by this Form 10-Q/A. This Form 10-Q/A continues to speak as of the date of the Original Form 10-Q and we have not updated the filing to reflect events occurring subsequently to the Original Form 10-Q date other than those associated with the restatement of the Company's financial statements and certain material events which are identified as to date. Accordingly, this Form 10-Q/A should be read in conjunction with the Company's filings with the SEC subsequent to the filing of the Original 10-Q, including any amendments to those filings.

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Assured Guaranty Ltd.

Consolidated Balance Sheets (Unaudited)

(dollars in thousands except per share and share amounts)

	June 30, 2011 (restated)	December 31, 2010 (restated)
Assets		
Investment portfolio:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost of \$9,596,052 and \$9,274,718)	\$ 9,864,203	\$ 9,402,287
Short-term investments, at fair value	1,105,615	1,055,567
Other invested assets	252,082	283,032
Total investment portfolio	11,221,900	10,740,886
Cash	165,490	108,389
Premiums receivable, net of ceding commissions payable	1,059,461	1,167,587
Ceded unearned premium reserve	773,321	821,819
Deferred acquisition costs	232,311	239,805
Reinsurance recoverable on unpaid losses	26,025	22,255
Salvage and subrogation recoverable	307,147	1,032,369
Credit derivative assets	603,867	592,898
Deferred tax asset, net	1,031,438	1,259,125
Current income tax receivable	187,969	
Financial guaranty variable interest entities assets, at fair value	3,492,204	3,657,481
Other assets	198,692	199,305
Total assets	\$ 19,299,825	\$ 19,841,919
Liabilities and shareholders equity		
Unearned premium reserve	\$ 6,315,362	\$ 6,972,894
Loss and loss adjustment expense reserve	518,145	574,369
Reinsurance balances payable, net	175,875	274,431
Long-term debt	1,046,382	1,052,936
Credit derivative liabilities	2,791,473	2,462,831
Current income tax payable		93,020
Financial guaranty variable interest entities liabilities with recourse, at fair value	2,848,897	3,030,908
Financial guaranty variable interest entities liabilities without recourse, at fair value	1,282,463	1,337,214
Other liabilities	407,321	309,862
Total liabilities	15,385,918	16,108,465
Commitments and contingencies (See Note 13)		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 184,192,736 and 183,744,655 shares issued and outstanding in 2011 and 2010)	1,842	1,837
Additional paid-in capital	2,590,654	2,585,423
Retained earnings	1,113,820	1,032,445
Accumulated other comprehensive income, net of tax provision (benefit) of \$66,293 and \$18,341	205,591	111,749
Deferred equity compensation (181,818 shares)	2,000	2,000
Total shareholders equity	3,913,907	3,733,454
Total liabilities and shareholders equity	\$ 19,299,825	\$ 19,841,919

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Operations (Unaudited)

(dollars in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 (restated)	2010 (restated)	2011 (restated)	2010 (restated)
Revenues				
Net earned premiums	\$ 230,068	\$ 297,050	\$ 484,045	\$ 611,670
Net investment income	101,153	90,871	197,214	175,173
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(26,818)	(17,412)	(33,765)	(18,529)
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	(15,240)		(17,609)	(661)
Other net realized investment gains (losses)	6,488	8,974	13,872	18,843
Net realized investment gains (losses)	(5,090)	(8,438)	(2,284)	975
Net change in fair value of credit derivatives:				
Realized gains and other settlements	(10,836)	38,353	24,591	65,056
Net unrealized gains (losses)	(54,059)	35,115	(325,695)	287,213
Net change in fair value of credit derivatives	(64,895)	73,468	(301,104)	352,269
Fair value gain (loss) on committed capital securities	569	12,593	1,095	11,318
Net change in fair value of financial guaranty variable interest entities	(174,286)	(27,392)	(54,685)	(36,305)
Other income	28,775	(13,396)	70,926	(26,325)
Total Revenues	116,294	424,756	395,207	1,088,775
Expenses				
Loss and loss adjustment expenses	123,913	85,770	98,333	196,622
Amortization of deferred acquisition costs	9,533	6,936	16,953	15,109
Assured Guaranty Municipal Holdings Inc. acquisition-related expenses		2,751		6,772
Interest expense	24,696	24,831	49,456	49,965
Other operating expenses	48,508	47,507	105,343	110,040
Total expenses	206,650	167,795	270,085	378,508
Income (loss) before income taxes	(90,356)	256,961	125,122	710,267
Provision (benefit) for income taxes				
Current	9,864	44,822	(187,735)	5,869
Deferred	(57,684)	33,004	214,781	191,803
Total provision (benefit) for income taxes	(47,820)	77,826	27,046	197,672
Net income (loss)	\$ (42,536)	\$ 179,135	\$ 98,076	\$ 512,595
Earnings per share:				
Basic	\$ (0.23)	\$ 0.97	\$ 0.53	\$ 2.78
Diluted	\$ (0.23)	\$ 0.95	\$ 0.52	\$ 2.70
Dividends per share	\$ 0.045	\$ 0.045	\$ 0.090	\$ 0.090

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 (restated)	2010 (restated)	2011 (restated)	2010 (restated)
Net income (loss)	\$ (42,536)	\$ 179,135	\$ 98,076	\$ 512,595
Unrealized holding gains (losses) arising during the period, net of tax provision (benefit) of \$56,071, \$3,785, \$45,634 and \$(1,597)	114,809	48,183	89,264	57,397
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of \$(1,743), \$(4,206), \$(1,571) and \$(1,438)	(4,227)	(4,232)	(3,198)	2,413
Change in net unrealized gains on investments	119,036	52,415	92,462	54,984
Change in cumulative translation adjustment, net of tax provision (benefit) of \$191, \$(746), \$860 and \$(2,854)	346	(1,375)	1,589	(5,259)
Change in cash flow hedge, net of tax provision (benefit) of \$(57), \$(57), \$(113) and \$(113)	(104)	(104)	(209)	(209)
Other comprehensive income (loss)	119,278	50,936	93,842	49,516
Comprehensive income (loss)	\$ 76,742	\$ 230,071	\$ 191,918	\$ 562,111

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders Equity (Unaudited)

For the Six Months Ended June 30, 2011

(dollars in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (restated)	Accumulated Other Comprehensive Income (restated)	Deferred Equity Compensation	Total Shareholders Equity (restated)
Balance, December 31, 2010	183,744,655	\$ 1,837	\$ 2,585,423	\$ 1,032,445	\$ 111,749	\$ 2,000	\$ 3,733,454
Net income				98,076			98,076
Dividends (\$0.09 per share)				(16,577)			(16,577)
Dividends on restricted stock units			124	(124)			
Share-based compensation and other	448,081	5	5,107				5,112
Change in cumulative translation adjustment					1,589		1,589
Change in cash flow hedge					(209)		(209)
Change in unrealized gains (losses) on:							
Investments with no other-than-temporary impairment					80,808		80,808
Investments with other-than-temporary impairment					8,456		8,456
Less: reclassification adjustment for gains (losses) included in net income (loss)					(3,198)		(3,198)
Balance, June 30, 2011	184,192,736	\$ 1,842	\$ 2,590,654	\$ 1,113,820	\$ 205,591	\$ 2,000	\$ 3,913,907

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2011 (restated)	2010 (restated)
Net cash flows provided by (used in) operating activities	\$ 631,946	\$ (217,674)
Investing activities		
Fixed maturity securities:		
Purchases	(1,349,745)	(1,166,379)
Sales	685,980	780,818
Maturities	325,750	488,552
Net sales (purchases) of short-term investments	(49,901)	248,780
Net proceeds from paydowns on financial guaranty variable interest entities assets	423,977	217,329
Other	8,696	8,317
Net cash flows provided by (used in) investing activities	44,757	577,417
Financing activities		
Dividends paid	(16,577)	(16,613)
Repurchases of common stock		(10,457)
Share activity under option and incentive plans	(2,652)	(2,233)
Net paydowns of financial guaranty variable interest entities liabilities	(593,294)	(259,367)
Repayment of long-term debt	(10,294)	(10,850)
Net cash flows provided by (used in) financing activities	(622,817)	(299,520)
Effect of foreign exchange rate changes	3,215	(3,090)
Increase (decrease) in cash	57,101	57,133
Cash at beginning of period	108,389	44,133
Cash at end of period	\$ 165,490	\$ 101,266
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	\$ 89,202	\$ 136,645
Interest	\$ 45,711	\$ 46,261

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011

1. Business and Basis of Presentation

Business

Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty or the Company) is a Bermuda-based holding company that provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and international public finance, infrastructure and structured finance markets. The Company has applied its credit underwriting judgment, risk management skills and capital markets experience to develop insurance, reinsurance and credit derivative products that protect holders of debt instruments and other monetary obligations from defaults in scheduled payments, including scheduled interest and principal payments. The securities insured by the Company include tax-exempt and taxable obligations issued by U.S. state or municipal governmental authorities, utility districts or facilities; notes or bonds issued to finance international infrastructure projects; and asset-backed securities issued by special purpose entities. The Company markets its credit protection products directly to issuers and underwriters of public finance, infrastructure and structured finance securities as well as to investors in such debt obligations. The Company guarantees debt obligations issued in many countries, although its principal focus is on the U.S., Europe and Australia.

Financial guaranty insurance contracts provide an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Financial guaranty contracts accounted for as credit derivatives are generally structured such that the circumstances giving rise to the Company's obligation to make loss payments are similar to those for financial guaranty insurance contracts and only occurs upon one or more defined credit events such as failure to pay or bankruptcy, in each case, as defined within the transaction documents, with respect to one or more third party referenced securities or loans. Financial guaranty contracts accounted for as credit derivatives are primarily comprised of credit default swaps (CDS). In general, the Company structures credit derivative transactions such that the circumstances giving rise to the Company's obligation to make loss payments are similar to those for financial guaranty insurance contracts but are governed by International Swaps and Derivative Association, Inc. (ISDA) documentation.

The Company's business has evolved as a result of the recent crisis in the financial markets. For example, the Company is focused primarily on insuring public finance obligations in the primary and secondary markets. It is selectively underwriting certain structured finance transactions, but has not underwritten a new U.S. residential mortgage-backed security (RMBS) since 2008 and will not do so until underwriting standards improve significantly. See Note 4 for the Company's outstanding U.S. RMBS exposures. In addition, the Company ceased selling credit protection through CDS in the beginning of 2009 following the issuance of regulatory guidelines that limited the terms under which such protection could be sold. The potential capital or margin requirements that may apply under the Dodd-Frank Wall Street Reform and Consumer protection Act (the Dodd-Frank Act) also contributed to the decision of the Company not to sell new credit protection through CDS in the foreseeable future. Furthermore, the Company had historically entered into ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks. However, given the lack of viable third party financial guaranty insurers and

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reinsurers, the Company has not entered into any new assumed or ceded reinsurance treaties since 2008, and has been reassuming previously ceded business from reinsurers whose ratings have declined to below-investment-grade (**BIG**) levels.

Public finance obligations insured by the Company consist primarily of general obligation bonds supported by the issuers' taxing powers, tax-supported bonds and revenue bonds and other obligations of states, their political subdivisions and other municipal issuers supported by the issuers' or obligors' covenant to impose and collect fees and charges for public services or specific projects. Public finance obligations include obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including government office buildings, toll roads, health-care facilities and utilities. Structured finance obligations insured by the Company are generally backed by pools of assets such as residential or commercial mortgage loans, consumer or trade receivables, securities or other assets having an ascertainable cash flow or market value and issued by special purpose entities; the Company will also insure other specialized financial obligations.

When a rating agency rates a financial obligation guaranteed by one of AGL's insurance company subsidiaries, it generally awards that obligation the same rating it has assigned to the financial strength of the AGL subsidiary that provides

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

the guaranty. Investors in products insured by the Company's insurance company subsidiaries frequently rely on ratings published by nationally recognized statistical rating organizations (NRSROs) because such ratings influence the trading value of securities and form the basis for many institutions' investment guidelines as well as individuals' bond purchase decisions. Therefore, the Company manages its business with the goal of achieving high financial strength ratings. However, the models used by NRSROs differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. The models are not fully transparent, contain subjective data (such as assumptions about future market demand for the Company's products) and change frequently. Ratings reflect only the views of the respective NRSROs and are subject to continuous review and revision or withdrawal at any time.

On January 24, 2011, Standard & Poor's Rating Services (S&P) released a publication entitled "Request for Comment: Bond Insurance Criteria," in which it requested comments on proposed changes to its bond insurance ratings criteria. In the Request for Comment, S&P noted that it could lower its financial strength ratings on existing investment-grade bond insurers (which include the Company's insurance subsidiaries) by one or more rating categories if the proposed bond insurance ratings criteria are adopted, unless those bond insurers raise additional capital or reduce risk. The proposed ratings criteria contemplate the imposition of a leverage test that is based solely on the amount of par insured and does not take into account the bond insurer's unearned premium reserve as a claims-paying resource; changes to S&P's capital adequacy model, including significant increases in capital charges for both U.S. public finance obligations and structured finance obligations; and reductions in the single-risk limits for U.S. public finance obligations. This action by S&P has exacerbated uncertainty in the market over the Company's financial strength ratings and has a negative impact on the demand for the Company's insurance product. The Company has submitted comment letters to S&P discussing the modifications that it believes would be necessary to establish a supportable framework for determining the ratings of financial guaranty companies, and on April 21, 2011, S&P announced that it is in the process of analyzing the feedback received from market participants and revisiting its assumptions and analysis in light of the feedback. S&P also stated that it expects to publish the final criteria in the third quarter of 2011 and to publish updated ratings that reflect the application of the new criteria by September 30, 2011. If S&P were not to accept any of our comments and adopts the ratings criteria as proposed, the new criteria could have an adverse impact on the financial strength ratings of the Company's insurance subsidiaries if the Company were unable to reduce risk or raise capital on acceptable terms. Since S&P announced its proposed criteria, the Company has been pursuing strategies to improve its rating agency capital position. Such strategies include pursuing negotiated agreements with providers of representations and warranties in the insured U.S. RMBS portfolio, and agreeing to terminate credit default swap transactions and financial guaranties that carry high rating agency capital charges. See Notes 5, 7 and 12 for the potential impact of a rating downgrade on the insured portfolio. See Note 17 for subsequent events.

Unless otherwise noted, ratings on Assured Guaranty's insured portfolio reflect internal ratings. The Company's ratings scale is similar to that used by the NRSROs; however, the ratings in these financial statements may not be the same as those assigned by any such rating agency. The super senior category, which is not generally used by rating agencies, is used by the Company in instances where Assured Guaranty's AAA-rated exposure on its internal rating scale has additional credit enhancement due to either (1) the existence of another security rated AAA that is subordinated to Assured Guaranty's exposure or (2) Assured Guaranty's exposure benefiting from a different form of credit enhancement that would pay any claims first in the event that any of the exposures incurs a loss, and such credit enhancement, in management's opinion, causes Assured Guaranty's attachment point to be materially above the AAA attachment point.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated financial guaranty variable interest entities (FG VIEs) for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These unaudited interim consolidated financial statements cover the three-month period ended June 30, 2011 (Second Quarter 2011), the three-month period ended June 30, 2010 (Second Quarter 2010), the six-month period ended June 30, 2011 (Six Months 2011) and the six-month period ended June 30, 2010 (Six Months 2010).

These unaudited interim consolidated financial statements include the accounts of AGL and its direct and indirect subsidiaries (collectively, the Subsidiaries) and its consolidated FG VIEs. Intercompany accounts and transactions between and among AGL and its Subsidiaries have been eliminated, as well as transactions between the insurance company

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

subsidiaries and the consolidated FG VIEs. Certain prior year balances have been reclassified to conform to the current year's presentation.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission (the "SEC").

AGL's principal insurance company subsidiaries are Assured Guaranty Corp. ("AGC"), domiciled in Maryland, Assured Guaranty Municipal Corp. ("AGM"), domiciled in New York, and Assured Guaranty Re Ltd. ("AG Re"), domiciled in Bermuda. In addition, the Company also has another U.S. and another Bermuda insurance company subsidiary that participates in a pooling agreement with AGM, two insurance subsidiaries organized in the United Kingdom, and a mortgage insurance company. The Company's organizational structure includes various holdings companies, two of which Assured Guaranty US Holdings Inc. ("AGUS") and Assured Guaranty Municipal Holdings Inc. ("AGMH") have public debt outstanding. See Note 14.

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" ("ASU 2011-05"), which eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. Upon adoption, the Company will expand the Consolidated Statements of Comprehensive Income to include the other comprehensive income items now presented in the Consolidated Statement of Shareholders' Equity. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which corresponds to the Company's first quarter of fiscal 2012. Early adoption of the new guidance is permitted and full retrospective application is required when the new guidance is adopted. The Company has not yet adopted this guidance.

Change in Accounting Policy

Prior to January 1, 2011, the Company managed its business and reported financial information for two principal financial guaranty segments: direct and reinsurance. There has been no market for financial guaranty reinsurance in the past two years and one is not expected to develop in the foreseeable future. The Company's reinsurance subsidiary, AG Re, now only writes new treaties with affiliates that are eliminated in consolidation. As a result, the chief operating decision maker now manages the operations of the Company at a consolidated level and no longer uses underwriting gain (loss) by segment as an operating metric. Therefore, segment financial information is no longer disclosed.

2. Restatement of Previously Issued Financial Statements

AGL, through its insurance subsidiaries, has provided financial guaranties with respect to debt obligations issued by special purpose entities, including FG VIEs. Assured Guaranty does not sponsor such FG VIEs nor does it act as the servicer or collateral manager for any FG VIE debt obligations that it insures. However, when Assured Guaranty provides such financial guaranties, it can obtain certain control rights through the transaction structure which make Assured Guaranty the primary beneficiary of the FG VIE. Assured Guaranty is required under GAAP to consolidate the FG VIE in its financial statements when it is the primary beneficiary. See Note 8. When such consolidation occurs, Assured Guaranty must eliminate the intercompany transactions between the relevant Assured Guaranty insurance subsidiary and the consolidated FG VIE. Assured Guaranty discovered errors in the elimination of such intercompany transactions, which resulted in the restatement of the consolidated financial statements for the three and six months ended June 30, 2011 and the year ended December 31, 2010.

In addition, the Company was required to correct certain unrelated, immaterial errors as part of the restatement which affected expected losses, the fair value of credit derivatives, and the classification of FG VIE assets and liabilities, which affected the years ended December 31, 2010 and 2009. While these immaterial errors were corrected at the time they were identified, these restated financial statements reflect the correction of such errors in period in which they arose.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

The effect of the restatement on the balance sheet is shown in the tables below.

	As of June 30, 2011			
	As Previously Filed	(1) FG VIE Eliminations	(2) Other Adjustments	Restated
	(in millions)			
Assets				
Total investment portfolio	\$ 11,186.7	\$ 35.2	\$	\$ 11,221.9
Cash	159.2	6.3		165.5
Premiums receivable, net of ceding commissions payable	1,059.5			1,059.5
Ceded unearned premium reserve	773.3			773.3
Deferred acquisition costs	232.3			232.3
Reinsurance recoverable on unpaid losses	26.0			26.0
Salvage and subrogation recoverable	307.1			307.1
Credit derivative assets	603.9			603.9
Deferred tax asset, net	1,012.0	18.3	1.1	1,031.4
Current income tax receivable	188.0			188.0
Financial guaranty variable interest entities assets, at fair value	3,492.2			3,492.2
Other assets	198.7			198.7
Total assets	\$ 19,238.9	\$ 59.8	\$ 1.1	\$ 19,299.8
Liabilities and shareholders equity				
Unearned premium reserve	\$ 6,315.4	\$	\$	\$ 6,315.4
Loss and loss adjustment expense reserve	518.1			518.1
Reinsurance balances payable, net	175.9			175.9
Long-term debt	1,046.4			1,046.4
Credit derivative liabilities	2,788.2		3.2	2,791.4
Financial guaranty variable interest entities liabilities with recourse, at fair value	2,755.1	93.8		2,848.9
Financial guaranty variable interest entities liabilities without recourse, at fair value	1,282.5			1,282.5
Other liabilities	407.3			407.3
Total liabilities	15,288.9	93.8	3.2	15,385.9
Commitments and contingencies				
Common stock	1.8			1.8
Additional paid-in capital	2,590.7			2,590.7
Retained earnings	1,149.9	(34.0)	(2.1)	1,113.8
	205.6			205.6

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Accumulated other comprehensive income, net of tax provision (benefit)								
Deferred equity compensation		2.0						2.0
Total shareholders equity		3,950.0		(34.0)		(2.1)		3,913.9
Total liabilities and shareholders equity	\$	19,238.9	\$	59.8	\$	1.1	\$	19,299.8

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	As of December 31, 2010			Restated
	As Previously Filed	(1) FG VIE Eliminations (in millions)	(2) Other Adjustments	
Assets				
Total investment portfolio	\$ 10,729.9	\$ 11.0	\$	\$ 10,740.9
Cash	107.2	1.2		108.4
Premiums receivable, net of ceding commissions payable	1,167.6			1,167.6
Ceded unearned premium reserve	821.8			821.8
Deferred acquisition costs	239.8			239.8
Reinsurance recoverable on unpaid losses	22.3			22.3
Salvage and subrogation recoverable	1,032.4			1,032.4
Credit derivative assets	592.9			592.9
Deferred tax asset, net	1,224.0	32.1	3.0	1,259.1
Financial guaranty variable interest entities assets, at fair value	4,334.4		(676.9)	3,657.5
Other assets	199.2			199.2
Total assets	\$ 20,471.5	\$ 44.3	\$ (673.9)	\$ 19,841.9
Liabilities and shareholders equity				
Unearned premium reserve	\$ 6,972.9	\$	\$	\$ 6,972.9
Loss and loss adjustment expense reserve	563.0		11.4	574.4
Reinsurance balances payable, net	274.4			274.4
Long-term debt	1,052.9			1,052.9
Credit derivative liabilities	2,465.5		(2.7)	2,462.8
Current income tax payable	93.0			93.0
Financial guaranty variable interest entities liabilities with recourse, at fair value	2,927.0	103.9		3,030.9
Financial guaranty variable interest entities liabilities without recourse, at fair value	2,014.1		(676.9)	1,337.2
Other liabilities	309.9			309.9
Total liabilities	16,672.7	103.9	(668.2)	16,108.4
Commitments and contingencies				
Common stock	1.8			1.8
Additional paid-in capital	2,585.4			2,585.4
Retained earnings	1,098.9	(60.7)	(5.7)	1,032.5
Accumulated other comprehensive income, net of tax provision (benefit)	110.7	1.1		111.8
Deferred equity compensation	2.0			2.0
Total shareholders equity	3,798.8	(59.6)	(5.7)	3,733.5
Total liabilities and shareholders equity	\$ 20,471.5	\$ 44.3	\$ (673.9)	\$ 19,841.9

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

The effect of the restatement on the consolidated statements of operations is shown in the tables below.

	As Previously Filed	Three Months Ended June 30, 2011		Restated
		(1) FG VIE Eliminations (in millions except per share amounts)	(2) Other Adjustments	
Revenues				
Net earned premiums	\$ 230.0	\$	\$	\$ 230.0
Net investment income	100.8	0.3		101.1
Net realized investment gains (losses)	(5.1)			(5.1)
Net change in fair value of credit derivatives	(59.4)		(5.4)	(64.8)
Fair value gain (loss) on committed capital securities	0.6			0.6
Net change in financial guaranty variable interest entities	(193.7)	19.4		(174.3)
Other income	28.8			28.8
Total revenues	102.0	19.7	(5.4)	116.3
Expenses				
Loss and loss adjustment expenses	132.9	2.7	(11.7)	123.9
Interest and other operating expenses	82.7			82.7
Total expenses	215.6	2.7	(11.7)	206.6
Income (loss) before income taxes	(113.6)	17.0	6.3	(90.3)
Provision (benefit) for income taxes				
Current	9.9			9.9
Deferred	(65.8)	6.0	2.2	(57.6)
Total provision (benefit) for income taxes	(55.9)	6.0	2.2	(47.7)
Net income (loss)	\$ (57.7)	\$ 11.0	\$ 4.1	\$ (42.6)
Earnings per share:				
Basic	\$ (0.31)			\$ (0.23)
Diluted	\$ (0.31)			\$ (0.23)

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	As Previously Filed	Three Months Ended June 30, 2010		Restated
		(1) FG VIE Eliminations (in millions except per share amounts)	(2) Other Adjustments	
Revenues				
Net earned premiums	\$ 292.1	\$ 4.9	\$	\$ 297.0
Net investment income	90.9			90.9
Net realized investment gains (losses)	(8.4)			(8.4)
Net change in fair value of credit derivatives	73.5			73.5
Fair value gain (loss) on committed capital securities	12.6			12.6
Net change in financial guaranty variable interest entities	0.5	(27.9)		(27.4)
Other income	(13.5)			(13.5)
Total revenues	447.7	(23.0)		424.7
Expenses				
Loss and loss adjustment expenses	71.2	14.3	0.2	85.7
Interest and other operating expenses	82.0			82.0
Total expenses	153.2	14.3	0.2	167.7
Income (loss) before income taxes	294.5	(37.3)	(0.2)	257.0
Provision (benefit) for income taxes				
Current	44.9			44.9
Deferred	46.1	(13.1)		33.0
Total provision (benefit) for income taxes	91.0	(13.1)		77.9
Net income (loss)	\$ 203.5	\$ (24.2)	\$ (0.2)	\$ 179.1
Earnings per share:				
Basic	\$ 1.10			\$ 0.97
Diluted	\$ 1.08			\$ 0.95

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	As Previously Filed	Six Months Ended June 30, 2011		Restated
		(1) FG VIE Eliminations (in millions except per share amounts)	(2) Other Adjustments	
Revenues				
Net earned premiums	\$ 484.0	\$	\$	\$ 484.0
Net investment income	197.2			197.2
Net realized investment gains (losses)	(2.3)			(2.3)
Net change in fair value of credit derivatives	(295.1)		(5.9)	(301.0)
Fair value gain (loss) on committed capital securities	1.1			1.1
Net change in financial guaranty variable interest entities	(99.8)	45.1		(54.7)
Other income	71.0			71.0
Total revenues	356.1	45.1	(5.9)	395.3
Expenses				
Loss and loss adjustment expenses	105.9	3.9	(11.4)	98.4
Interest and other operating expenses	171.7			171.7
Total expenses	277.6	3.9	(11.4)	270.1
Income (loss) before income taxes	78.5	41.2	5.5	125.2
Provision (benefit) for income taxes				
Current	(187.7)			(187.7)
Deferred	198.5	14.5	1.9	214.9
Total provision (benefit) for income taxes	10.8	14.5	1.9	27.2
Net income (loss)	\$ 67.7	\$ 26.7	\$ 3.6	\$ 98.0
Earnings per share:				
Basic	\$ 0.37			\$ 0.53
Diluted	\$ 0.36			\$ 0.52

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	As Previously Filed	Six Months Ended June 30, 2010		Restated
		(1) FG VIE Eliminations (in millions except per share amounts)	(2) Other Adjustments	
Revenues				
Net earned premiums	\$ 611.7	\$	\$	\$ 611.7
Net investment income	175.2			175.2
Net realized investment gains (losses)	1.0			1.0
Net change in fair value of credit derivatives	352.3			352.3
Fair value gain (loss) on committed capital securities	11.3			11.3
Net change in financial guaranty variable interest entities	(10.1)	(26.2)		(36.3)
Other income	(26.4)			(26.4)
Total revenues	1,115.0	(26.2)		1,088.8
Expenses				
Loss and loss adjustment expenses	201.7	0.1	(5.2)	196.6
Interest and other operating expenses	181.9			181.9
Total expenses	383.6	0.1	(5.2)	378.5
Income (loss) before income taxes	731.4	(26.3)	5.2	710.3
Provision (benefit) for income taxes				
Current	5.9			5.9
Deferred	200.0	(9.2)	1.0	191.8
Total provision (benefit) for income taxes	205.9	(9.2)	1.0	197.7
Net income (loss)	\$ 525.5	\$ (17.1)	\$ 4.2	\$ 512.6
Earnings per share:				
Basic	\$ 2.85			\$ 2.78
Diluted	\$ 2.77			\$ 2.70

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

The effect of the restatement on the consolidated statements of comprehensive income is shown in the tables below.

	Three Months Ended June 30, 2011				Restated
	As Previously Filed	(1)	(2)	Other Adjustments	
		FG VIE Eliminations	(in millions)		
Net income (loss)	\$ (57.7)	\$ 11.0	\$ 4.1	\$ (42.6)	
Unrealized holding gains (losses) arising during the period	115.6	(0.8)		114.8	
Less: reclassification adjustment for gains (losses)	(4.2)			(4.2)	
Change in net unrealized gains on investments	119.8	(0.8)		119.0	
Change in cumulative translation adjustment	0.4			0.4	
Change in cash flow hedge	(0.1)			(0.1)	
Other comprehensive income(loss)	120.1	(0.8)		119.3	
Comprehensive income (loss)	\$ 62.4	\$ 10.2	\$ 4.1	\$ 76.7	

	Three Months Ended June 30, 2010				Restated
	As Previously Filed	(1)	(2)	Other Adjustments	
		FG VIE Eliminations	(in millions)		
Net income (loss)	\$ 203.5	\$ (24.2)	\$ (0.2)	\$ 179.1	
Unrealized holding gains (losses) arising during the period	48.2			48.2	
Less: reclassification adjustment for gains (losses)	(4.2)			(4.2)	
Change in net unrealized gains on investments	52.4			52.4	
Change in cumulative translation adjustment	(1.4)			(1.4)	
Change in cash flow hedge	(0.1)			(0.1)	
Other comprehensive income(loss)	50.9			50.9	
Comprehensive income (loss)	\$ 254.4	\$ (24.2)	\$ (0.2)	\$ 230.0	

	Six Months Ended June 30, 2011				Restated
	As Previously Filed	(1)	(2)	Other Adjustments	
		FG VIE Eliminations			

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	(in millions)							
Net income (loss)	\$	67.7	\$	26.7	\$	3.6	\$	98.0
Unrealized holding gains (losses) arising during the period		90.4		(1.1)				89.3
Less: reclassification adjustment for gains (losses)		(3.2)						(3.2)
Change in net unrealized gains on investments		93.6		(1.1)				92.5
Change in cumulative translation adjustment		1.6						1.6
Change in cash flow hedge		(0.2)						(0.2)
Other comprehensive income(loss)		95.0		(1.1)				93.9
Comprehensive income (loss)	\$	162.7	\$	25.6	\$	3.6	\$	191.9

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	As Previously Filed	Six Months Ended June 30, 2010		Restated
		(1) FG VIE Eliminations (in millions)	(2) Other Adjustments	
Net income (loss)	\$ 525.5	\$ (17.1)	\$ 4.2	512.6
Unrealized holding gains (losses) arising during the period	57.4			57.4
Less: reclassification adjustment for gains (losses)	2.4			2.4
Change in net unrealized gains on investments	55.0			55.0
Change in cumulative translation adjustment	(5.3)			(5.3)
Change in cash flow hedge	(0.2)			(0.2)
Other comprehensive income(loss)	49.5			49.5
Comprehensive income (loss)	\$ 575.0	\$ (17.1)	\$ 4.2	562.1

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

The effect of the restatement on the consolidated statements of cash flows is shown in the tables below.

	Six Months Ended June 30, 2011		
	As Previously Filed	(1) FG VIE Eliminations	Restated
Net cash flows provided by (used in) operating activities	\$ 614.4	\$ 17.5	\$ 631.9
Investing activities			
Fixed maturity securities:			
Purchases	(1,349.7)		(1,349.7)
Sales	686.0		686.0
Maturities	326.9	(1.2)	325.7
Net sales (purchases) of short-term investments	(38.7)	(11.2)	(49.9)
Net proceeds from paydowns on financial guaranty variable interest entities assets	424.0		424.0
Other	8.7		8.7
Net cash flows provided by (used in) investing activities	57.2	(12.4)	44.8
Financing activities			
Dividends paid	(16.6)		(16.6)
Share activity under option and incentive plans	(2.6)		(2.6)
Net paydowns of financial guarantyvariable interest entities liabilities	(593.3)		(593.3)
Repayment of long-term debt	(10.3)		(10.3)
Net cash flows provided by (used in) financing activities	(622.8)		(622.8)
Effect of exchange rate changes	3.2		3.2
Increase (decrease) in cash	52.0	5.1	57.1
Cash at beginning of period	107.2	1.2	108.4
Cash at end of period	\$ 159.2	\$ 6.3	\$ 165.5

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Six Months Ended June 30, 2010

	As	(1)	
	Previously Filed	FG VIE	Restated
		Eliminations	
Net cash flows provided by (used in) operating activities	\$ (249.5)	\$ 31.9	\$ (217.6)
Investing activities			
Fixed maturity securities:			
Purchases	(1,166.3)		(1,166.3)
Sales	780.8		780.8
Maturities	488.6		488.6
Net sales (purchases) of short-term investments	276.6	(27.9)	248.7
Net proceeds from paydowns on financial guaranty variable interest entities assets	217.3		217.3
Other	8.3		8.3
Net cash flows provided by (used in) investing activities	605.3	(27.9)	577.4
Financing activities			
Dividends paid	(16.6)		(16.6)
Share repurchases	(10.5)		(10.5)
Share activity under option and incentive plans	(2.3)		(2.3)
Net paydowns of financial guaranty variable interest entities liabilities	(259.4)		(259.4)
Repayment of long-term debt	(10.8)		(10.8)
Net cash flows provided by (used in) financing activities	(299.6)		(299.6)
Effect of exchange rate changes	(3.1)		(3.1)
Increase (decrease) in cash	53.1	4.0	57.1
Cash at beginning of period	44.1		44.1
Cash at end of period	\$ 97.2	\$ 4.0	\$ 101.2

(1) Represents adjustments related to the correction of FG VIE intercompany eliminations.

(2) Represents other adjustments of immaterial errors. These corrections related to (a) errors in expected losses that had previously been corrected by the Company in the period such errors were identified, but which are now being recorded in the period in which they arose, (b) an error related to one credit derivative contract that resulted from the use of an incorrect par outstanding balance in the pricing model and (c) the correction of an error related to the classification of FG VIE assets and liabilities that resulted from a misinterpretation of a trustee report.

The Company also revised certain disclosures in Note 16 as part of the restatement of these financial statements.

3. Business Changes, Risks, Uncertainties and Accounting Developments

Summarized below are updates of the most significant events since year-end 2010 that have had, or may have in the future, a material effect on the financial position, results of operations or business prospects of the Company.

Recoveries for Breaches of Representations and Warranties

On April 14, 2011, Assured Guaranty reached a comprehensive agreement with Bank of America Corporation and its subsidiaries, including Countrywide Financial Corporation and its subsidiaries (collectively, Bank of America), regarding their liabilities with respect to 29 RMBS transactions insured by Assured Guaranty, including claims relating to reimbursement for breaches of representations and warranties (R&W) and historical loan servicing issues (Bank of America Agreement). Of the 29 RMBS transactions, eight are second lien transactions and 21 are first lien transactions. The Bank of America Agreement covers Bank of America-sponsored securitizations that AGM or AGC has insured, as well as certain other securitizations containing concentrations of Countrywide-originated loans that AGM or AGC has insured. The transactions covered by the Bank of America Agreement have a gross par outstanding of \$4.7 billion (\$4.4 billion net par outstanding) as of June 30, 2011, or 28% of Assured Guaranty's total BIG RMBS net par outstanding.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Bank of America paid \$928.1 million in Second Quarter 2011 in respect of covered second lien transactions and is obligated to pay another \$171.9 million by March 2012. In consideration of the \$1.1 billion, the Company has agreed to release its claims for the repurchase of mortgage loans underlying the eight second lien transactions (i.e., Assured Guaranty will retain the risk of future insured losses without further offset for R&W claims against Bank of America).

In addition, Bank of America will reimburse Assured Guaranty 80% of claims Assured Guaranty pays on the 21 first lien transactions, until aggregate collateral losses on such RMBS transactions reach \$6.6 billion. The Company accounts for the 80% loss sharing agreement with Bank of America as subrogation. As the Company calculates expected losses for these 21 first lien transactions, such expected losses will be offset by an R&W benefit from Bank of America for 80% of these amounts. As of June 30, 2011, Bank of America had placed \$1.0 billion of eligible assets in trust in order to collateralize the reimbursement obligation relating to the first lien transactions. The amount of assets required to be posted may increase or decrease from time to time, as determined by rating agency requirements.

Although the Bank of America Agreement was executed in Second Quarter 2011, it provided additional evidence about the estimates inherent in the loss estimation process at March 31, 2011, and therefore, the March 31, 2011 loss estimates incorporated updated assumptions and estimates reflecting the terms of the Bank of America Agreement. The benefit for R&W in 2011 reflects higher expected recoveries across all transactions as a result of the Bank of America Agreement. For transactions covered under the agreement, the R&W benefit has been updated to reflect amounts collected and expected to be collected under the terms of the Bank of America Agreement. For transactions with other sponsors of U.S. RMBS, against which the Company is pursuing R&W claims, the Company has increased the benefit for R&W in 2011 to reflect the probability that actual recovery rates may be higher than originally expected in the three-months period ended March 31, 2011 (First Quarter 2011). For transactions involving R&W providers other than Bank of America, the Company has continued to review additional loan files and has found breach rates consistent with those in the Bank of America transactions.

As a result of the 80% loss sharing arrangement, the Company increased its estimate of expected R&W recoveries during First Quarter 2011 for the transactions covered under the Bank of America Agreement by \$411.2 million, resulting in an increase to pre-tax income of approximately \$220 million. Changes in gross expected loss on these first lien transactions will result in a corresponding benefit for R&W equal to 80% of such development, up to \$6.6 billion of collateral losses.

The Company believes the Bank of America Agreement was a significant step in the effort to recover U.S. RMBS losses the Company experienced resulting from breaches of R&W. The Company is continuing to pursue other representation and warranty providers for U.S. RMBS transactions it has insured. See [Recovery Litigation](#) for a discussion of the litigation proceedings the Company has initiated against other R&W providers.

4. Outstanding Exposure

The Company's insurance policies and credit derivative contracts are written in different forms, but collectively are considered financial guaranty contracts. They typically guarantee the scheduled payments of principal and interest (Debt Service) on public finance and structured finance obligations. The Company seeks to limit its exposure to losses by underwriting obligations that are investment grade at inception, diversifying its portfolio and maintaining rigorous subordination or collateralization requirements on structured finance obligations. The Company also has utilized reinsurance by ceding business to third party reinsurers. The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. Based on accounting standards in effect during any given reporting period, some of these VIEs are consolidated as described in Note 8. The outstanding par and Debt Service amounts presented below include outstanding exposures on VIEs, whether or not they are consolidated.

Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	(in millions)			
Public finance	\$ 826,907	\$ 851,634	\$ 739,493	\$ 760,167
Structured finance	157,646	178,348	147,275	166,976
Total	\$ 984,553	\$ 1,029,982	\$ 886,768	\$ 927,143

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Financial Guaranty Net Par Outstanding by Internal Rating

Rating Category	Public Finance U.S.		Public Finance Non-U.S.		As of June 30, 2011 Structured Finance U.S.		Structured Finance Non-U.S.		Total						
	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%					
	(dollars in millions)														
Super senior	\$		% \$	1,507	3.7%	\$	19,957	19.2%	\$	7,683	26.8%	\$	29,147	5.0%	
AAA		5,078	1.2	1,379	3.3		38,175	36.7		12,722	44.3		57,354	9.8	
AA		151,571	36.7	1,145	2.8		14,236	13.7		1,606	5.6		168,558	28.7	
A		211,736	51.2	12,517	30.4		5,721	5.5		1,610	5.6		231,584	39.4	
BBB		41,939	10.2	22,318	54.1		5,248	5.0		3,273	11.3		72,778	12.4	
BIG		2,950	0.7	2,360	5.7		20,641	19.9		1,824	6.4		27,775	4.7	
Total net par outstanding	\$	413,274	100.0%	\$	41,226	100.0%	\$	103,978	100.0%	\$	28,718	100.0%	\$	587,196	100.0%

Rating Category	Public Finance U.S.		Public Finance Non-U.S.		As of December 31, 2010 Structured Finance U.S.		Structured Finance Non-U.S.		Total						
	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%					
	(dollars in millions)														
Super senior	\$		% \$	1,420	3.5%	\$	21,837	18.4%	\$	7,882	25.7%	\$	31,139	5.0%	
AAA		5,784	1.4	1,378	3.4		45,067	37.9		13,573	44.3		65,802	10.7	
AA		161,906	37.9	1,330	3.3		17,355	14.6		1,969	6.4		182,560	29.6	
A		214,199	50.2	12,482	30.6		6,396	5.4		1,873	6.1		234,950	38.1	
BBB		41,948	9.8	22,338	54.8		7,543	6.4		4,045	13.2		75,874	12.3	
BIG		3,159	0.7	1,795	4.4		20,558	17.3		1,294	4.3		26,806	4.3	
Total net par outstanding	\$	426,996	100.0%	\$	40,743	100.0%	\$	118,756	100.0%	\$	30,636	100.0%	\$	617,131	100.0%

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of \$3.9 billion for structured finance and \$1.7 billion for public finance commitments at June 30, 2011. The structured finance commitments include the unfunded component of pooled corporate and other transactions. Public finance commitments typically relate to primary and secondary public finance debt issuances. The expiration dates for the public finance commitments range between July 1, 2011 and February 1, 2019, with \$1.3 billion expiring prior to December 31, 2011. All the commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be cancelled at the counterparty's request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

Surveillance Categories

The Company segregates its insured portfolio into investment grade and BIG surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review for each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company's internal credit ratings are based on internal assessment of the likelihood of default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and are generally reflective of an approach similar to that employed by the rating agencies.

The Company monitors its investment grade credits to determine whether any new credits need to be internally downgraded to BIG. The Company refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. The Company's insured credit ratings on assumed credits are based on the Company's independent reviews of low-rated credits or credits in volatile sectors, unless such information is not available, in which case, the ceding company's credit rating of the transactions are used. For example, the Company models all assumed RMBS credits with par above \$1 million, as well as certain RMBS credits below that amount.

Credits identified as BIG are subjected to further review to determine the probability of a loss (see Note 5 Loss estimation process). Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a lifetime loss is expected and whether a claim has been paid. The Company expects lifetime losses on

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

a transaction when the Company believes there is more than a 50% chance that, on a present value basis, it will pay more claims over the life of that transaction than it will ultimately have been reimbursed. For surveillance purposes, the Company calculates present value using a constant discount rate of 5%. (A risk-free rate is used for recording of reserves for financial statement purposes.) A liquidity claim is a claim that the Company expects to be reimbursed within one year.

Intense monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. The three BIG categories are:

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make lifetime losses possible, but for which none are currently expected. Transactions on which claims have been paid but are expected to be fully reimbursed (other than investment grade transactions on which only liquidity claims have been paid) are in this category.
- BIG Category 2: Below-investment-grade transactions for which lifetime losses are expected but for which no claims (other than liquidity claims) have yet been paid.
- BIG Category 3: Below-investment-grade transactions for which lifetime losses are expected and on which claims (other than liquidity claims) have been paid. Transactions remain in this category when claims have been paid and only a recoverable remains.

Included in the BIG first lien RMBS exposures below is \$1.9 billion of net par outstanding related to transactions covered by the Bank of America Agreement, which represents 17% of the U.S. RMBS first lien net par outstanding as of June 30, 2011. Under the Bank of America Agreement, 80% of first lien claims paid by Assured Guaranty will be reimbursed, until such time as losses on the collateral underlying the RMBS on which Assured Guaranty is paying claims reach \$6.6 billion.

Financial Guaranty Exposures

(Insurance and Credit Derivative Form)

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	BIG 1	BIG Net Par Outstanding BIG 2	BIG 3 (in millions)	Total BIG	Net Par Outstanding	BIG Net Par as a % of Net Par Outstanding
First lien U.S. RMBS:						
Prime first lien	\$ 26	\$ 582	\$	\$ 608	\$ 786	0.1%
Alt-A first lien	1,127	2,397	1,487	5,011	5,731	0.9
Option ARM	0	1,302	1,260	2,562	2,809	0.4
Subprime (including net interest margin securities)	334	2,468	212	3,014	8,572	0.5
Second lien U.S. RMBS:						
Closed-end second lien	153	438	467	1,058	1,087	0.2
Home equity lines of credit (HELOCs)	470		3,134	3,604	4,281	0.6
Total U.S. RMBS	2,110	7,187	6,560	15,857	23,266	2.7
Other structured finance	3,756	424	2,428	6,608	109,430	1.1
Public finance	4,241	204	865	5,310	454,500	0.9
Total	\$ 10,107	\$ 7,815	\$ 9,853	\$ 27,775	\$ 587,196	4.7%

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	December 31, 2010					
	BIG 1	BIG Net Par Outstanding		Total BIG	Net Par Outstanding	BIG Net Par as a % of Net Par Outstanding
	(restated)	BIG 2 (restated)	BIG 3 (in millions)			
First lien U.S. RMBS:						
Prime first lien	\$ 82	\$ 542	\$	\$ 624	\$ 849	0.1%
Alt-A first lien	976	3,108	573	4,657	6,134	0.8
Option ARM	33	2,186	640	2,859	3,214	0.5
Subprime (including net interest margin securities)	729	2,248	106	3,083	9,039	0.4
Second lien U.S. RMBS:						
Closed-end second lien	63	444	624	1,131	1,164	0.2
HELOCs	369		3,632	4,001	4,730	0.6
Total U.S. RMBS	2,252	8,528	5,575	16,355	25,130	2.6
Other structured finance	2,687	363	2,447	5,497	124,262	0.9
Public finance	3,752	283	919	4,954	467,739	0.8
Total	\$ 8,691	\$ 9,174	\$ 8,941	\$ 26,806	\$ 617,131	4.3%

By Category Below-Investment-Grade Credits

Description	As of June 30, 2011					
	Financial Guaranty Insurance(1)		Net Par Outstanding Credit Derivative(2)		Number of Risks(3)	
	Total	Total	Total	Total	Total	
BIG:						
Category 1	\$ 6,877	\$ 3,230	\$ 10,107	151	30	181
Category 2	5,038	2,777	7,815	84	44	128
Category 3	7,424	2,429	9,853	129	23	152
Total BIG	\$ 19,339	\$ 8,436	\$ 27,775	364	97	461

Description	As of December 31, 2010					
	Financial Guaranty Insurance(1)		Net Par Outstanding Credit Derivative(2)		Number of Risks(3)	
	Total	Total	Total	Total	Total	
BIG:						
Category 1	\$ 6,877	\$ 3,230	\$ 10,107	151	30	181
Category 2	5,038	2,777	7,815	84	44	128
Category 3	7,424	2,429	9,853	129	23	152
Total BIG	\$ 19,339	\$ 8,436	\$ 27,775	364	97	461

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	(restated)		(restated)		(restated)					
BIG:										
Category 1	\$	5,450	\$	3,241	\$	8,691	119	31	150	
Category 2		5,717		3,457		9,174		98	50	148
Category 3		7,281		1,660		8,941		115	12	127
Total BIG	\$	18,448	\$	8,358	\$	26,806		332	93	425

(1) Represents contracts accounted for as financial guaranty insurance. See Note 5.

(2) Represents contracts accounted for as credit derivatives and carried at fair value on the consolidated balance sheets. See Note 7.

(3) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments.

Table of Contents**Assured Guaranty Ltd.****Notes to Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2011****5. Financial Guaranty Insurance Contracts**

The portfolio of outstanding exposures discussed in Note 4 includes financial guaranty contracts that meet the definition of insurance contracts under ASC 944 as well as those that meet the definition of derivative contracts under ASC 815. Amounts presented in this Note relate to financial guaranty insurance contracts. Tables presented herein also present reconciliations to financial statement line items for other less significant types of insurance.

In October 2010, the FASB adopted Accounting Standards Update (Update) No. 2010-26. The Update specifies that certain costs incurred in the successful acquisition of new and renewal insurance contracts should be capitalized. These costs include incremental direct costs of contract acquisition that result directly from, and are essential to, the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. Costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs should be charged to expense as incurred. The Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Retrospective application to all prior periods presented upon the date of adoption is permitted, but not required. The Company is currently evaluating the impact the amendment in the Update will have on its consolidated financial statements in 2012.

The following tables present net earned premiums, premium receivable activity, expected collections of future premiums and expected future earnings on the existing book of business. The tables below provide the expected timing of premium revenue recognition, before accretion, and the expected timing of loss and loss adjustment expenses (LAE) recognition, before accretion. Actual collections may differ from expected collections in the tables below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, and changes in expected lives. The amount and timing of actual premium earnings and loss expense may differ from the estimates shown below due to factors such as refundings, accelerations, future commutations, changes in expected lives and updates to loss estimates.

Net Earned Premiums

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
	(restated)			
Scheduled net earned premiums	\$ 202.7	\$ 271.7	\$ 417.6	\$ 558.3
Acceleration of premium earnings(1)	21.0	15.4	50.6	30.8

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Accretion of discount on net premiums receivable	5.8	9.2	14.8	21.3
Total financial guaranty	229.5	296.3	483.0	610.4
Other	0.5	0.7	1.0	1.3
Total net earned premiums(2)	\$ 230.0	\$ 297.0	\$ 484.0	\$ 611.7

(1) Reflects the unscheduled refundings of underlying insured obligations.

(2) Excludes \$18.3 million and \$10.7 million in Second Quarter 2011 and 2010, respectively, and \$37.4 million and \$21.6 million for the Six Months 2011 and 2010, respectively, in net earned premium related to consolidated FG VIEs.

Table of Contents**Assured Guaranty Ltd.****Notes to Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2011****Gross Premium Receivable, Net of Ceding Commissions Roll Forward**

	2011	Six Months (in millions)	2010
Balance beginning of period	\$ 1,167.6		\$ 1,418.2
Change in accounting(1)			(19.0)
Balance beginning of the period, adjusted	1,167.6		1,399.2
Premium written, net		102.9	178.7
Premium payments received, net		(151.7)	(234.3)
Adjustments to the premium receivable:			
Changes in the expected term of financial guaranty insurance contracts		(91.1)	8.2
Accretion of discount		16.4	23.7
Foreign exchange translation		22.8	(65.9)
Other adjustments		(7.4)	1.7
Balance, end of period	\$ 1,059.5		\$ 1,311.3

(1) Represents elimination of premium receivable at January 1, 2010 related to consolidated FG VIEs upon the adoption of the new accounting guidance.

Gains or losses due to foreign exchange rate changes relate to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 51% and 42% of installment premiums at June 30, 2011 and December 31, 2010, respectively, are denominated in currencies other than the U.S. dollar, primarily in euro and British Pound Sterling.

For premiums received in installments, premium receivable is the present value of premiums due or expected to be collected over the life of the contract. Installment premiums typically relate to structured finance transactions, where the insurance premium rate is determined at the inception of the contract but the insured par is subject to prepayment throughout the life of the deal. Premium receipts are typically made from insured deal cash flows that are senior to payments made to the holders of the insured securities. When there are significant changes to expected premium collections, an adjustment is recorded to premiums receivable with a corresponding adjustment to deferred premium revenue. When these installment premiums are related to assumed reinsurance amounts, the Company also assesses the credit quality and liquidity of the company that the premiums are assumed from as well as the impact of any potential regulatory constraints to determine the collectability of such amounts.

Expected Collections of Gross Premiums Receivable,

Net of Ceding Commissions

	June 30, 2011(1) (in millions)	
Gross premium collections expected:		
2011 (July 1 - September 30)	\$	54.5
2011 (October 1 - December 31)		63.6
2012		117.5
2013		103.0
2014		91.1
2015		81.4
2016 - 2020		326.3
2021 - 2025		229.3
2026 - 2030		167.7
After 2030		213.9
Total gross expected collections(2)	\$	1,448.3

(1) Represents undiscounted amounts expected to be collected.

(2) Total gross expected collections exclude \$31.7 million related to FG VIEs at June 30, 2011.

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The unearned premium reserve comprises deferred premium revenue and the contra-paid as presented in the table below.

Net Unearned Premium Reserve

	As of June 30, 2011			As of December 31, 2010		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
	(in millions)					
Deferred premium revenue	\$ 6,412.6	\$ 791.1	\$ 5,621.5	\$ 7,108.6	\$ 846.6	\$ 6,262.0
Contra-paid	(106.7)	(18.1)	(88.6)	(146.1)	(24.8)	(121.3)
Total financial guaranty	6,305.9	773.0	5,532.9	6,962.5	821.8	6,140.7
Other	9.5	0.3	9.2	10.4		10.4
Total	\$ 6,315.4	\$ 773.3	\$ 5,542.1	\$ 6,972.9	\$ 821.8	\$ 6,151.1

(1) Net unearned premium reserve excludes \$306.7 million and \$193.2 million related to FG VIEs as of June 30, 2011 and December 31, 2010, respectively.

Net deferred premium revenue will be recognized as net earned premiums over the period of the contract in proportion to the amount of insurance protection provided. Amounts expected to be recognized in net earned premiums differ significantly from expected cash collections due primarily to amounts in deferred premium revenue representing cash already collected on policies paid upfront and fair value adjustments recorded in connection with the acquisition of AGMH on July 1, 2009 (AGMH Acquisition).

The following table provides a schedule of the expected timing of the income statement recognition of financial guaranty insurance net deferred premium revenue and present value of net expected losses to be expensed, pretax. This table excludes amounts related to consolidated FG VIEs.

Expected Timing of Financial Guaranty Insurance**Premium and Loss Recognition**

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	Scheduled Net Earned Premium	As of June 30, 2011 Net Expected Loss to be Expensed(1) (in millions)	Net
2011 (July 1 - September 30)	\$ 180.1	\$ 51.1	\$ 129.0
2011 (October 1 - December 31)	167.8	40.4	127.4
2012	574.7	109.2	465.5
2013	480.5	64.5	416.0
2014	424.1	47.3	376.8
2015	374.9	37.6	337.3
2016 - 2020	1,408.3	121.5	1,286.8
2021 - 2025	886.0	65.9	820.1
2026 - 2030	543.2	33.2	510.0
After 2030	581.9	18.4	563.5
Total present value basis(2)(3)	5,621.5	589.1	5,032.4
Discount	341.4	442.1	(100.7)
Total future value	\$ 5,962.9	\$ 1,031.2	\$ 4,931.7

(1) These amounts reflect the Company's estimate as of June 30, 2011 of expected losses to be expensed and are not included in loss and LAE reserve because loss and LAE is only recorded for the amount by which net expected loss to be expensed exceeds deferred premium revenue, determined on a contract-by-contract basis.

(2) Balances represent discounted amounts.

(3) Consolidation of FG VIEs resulted in reductions of \$444.5 million in future scheduled amortization of deferred premium revenue and \$260.3 million in net present value of expected loss to be expensed.

Table of Contents**Assured Guaranty Ltd.****Notes to Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2011****Selected Information for Policies Paid in Installments**

	As of June 30, 2011	As of December 31, 2010
	(dollars in millions)	
Premiums receivable, net of ceding commission payable	\$ 1,059.5	\$ 1,167.6
Gross deferred premium revenue	2,384.4	2,933.6
Weighted average risk-free rate used to discount premiums	3.6%	3.5%
Weighted average period of premiums receivable (in years)	10.1	10.1

Loss Estimation Process

The Company's loss reserve committees estimate expected loss to be paid for its financial guaranty exposures. Surveillance personnel present analysis related to potential losses to the Company's loss reserve committees for consideration in estimating the expected loss to be paid. Such analysis includes the consideration of various scenarios with potential probabilities assigned to them. Depending upon the nature of the risk, the Company's view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments and sector-driven loss severity assumptions, judgmental assessment or, in the case of its assumed business, loss estimates provided by ceding insurers. The Company's loss reserve committees review and refresh the estimate of expected loss to be paid each quarter. The Company's estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the insured transaction due to the potential for significant variability in credit performance as a result of economic, fiscal and financial market variability over the long duration of most contracts. The determination of expected loss to be paid is an inherently subjective process involving numerous estimates, assumptions and judgments by management.

The following table presents a roll forward of the present value of net expected loss to be paid for financial guaranty insurance contracts by sector. Expected loss to be paid is the estimate of the present value of future claim payments, net of reinsurance and net of salvage and subrogation that includes the present value benefit of estimated recoveries for breaches of R&W.

Financial Guaranty Insurance**Present Value of Net Expected Loss to be Paid****Roll Forward by Sector(1)**

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	Net Expected Loss to be Paid as of December 31, 2010 (restated)	Economic Loss Development(2) (restated)	(Paid) Recovered Losses (in millions)	Net Expected Loss to be Paid as of June 30, 2011
U.S. RMBS:				
First lien:				
Prime first lien	\$ 1.4	\$ 1.8	\$	\$ 3.2
Alt-A first lien	184.4	21.8	(38.6)	167.6
Option ARM	523.7	(88.4)	(168.4)	266.9
Subprime	200.4	(23.2)	(15.7)	161.5
Total first lien	909.9	(88.0)	(222.7)	599.2
Second lien:				
Closed-end second lien	56.6	(109.6)	(41.7)	(94.7)
HELOCs	(805.7)	104.7	662.7	(38.3)
Total second lien	(749.1)	(4.9)	621.0	(133.0)
Total U.S. RMBS	160.8	(92.9)	398.3	466.2
Other structured finance	159.1	24.5	(3.0)	180.6
Public finance	88.9	(13.5)	(9.2)	66.2
Total	\$ 408.8	\$ (81.9)	\$ 386.1	\$ 713.0

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	Net Expected Loss to be Paid as of December 31, 2009 (restated)	Economic Loss Development(2) (restated) (in millions)	(Paid) Recovered Losses	Net Expected Loss to be Paid as of June 30, 2010 (restated)
U.S. RMBS:				
First lien:				
Prime first lien	\$	\$ 0.4	\$	\$ 0.4
Alt-A first lien	204.4	15.4	(29.0)	190.8
Option ARM	545.2	75.1	(49.1)	571.2
Subprime	77.5	69.3	(2.3)	144.5
Total first lien	827.1	160.2	(80.4)	906.9
Second lien:				
Closed-end second lien	199.3	(40.4)	(39.9)	119.0
HELOCs	(206.6)	28.7	(315.8)	(493.7)
Total second lien	(7.3)	(11.7)	(355.7)	(374.7)
Total U.S. RMBS	819.8	148.5	(436.1)	532.2
Other structured finance	115.7	36.0	(5.6)	146.1
Public finance	130.9	(8.1)	(34.2)	88.6
Total	\$ 1,066.4	\$ 176.4	\$ (475.9)	\$ 766.9

(1) Amounts include all expected payments whether or not the insured transaction VIE is consolidated. Amounts exclude reserves for mortgage business of \$2.1 million as of June 30, 2011 and \$2.1 million as of December 31, 2010.

(2) Economic loss development includes the effects of changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

Expected LAE for mitigating claim liabilities were \$15.9 million and \$17.2 million as of June 30, 2011 and December 31, 2010, respectively. The Company used weighted average risk-free rates ranging from 0% to 5.0% and 0% to 5.34% to discount expected loss to be paid as of June 30, 2011 and December 31, 2010, respectively.

The table below provides a reconciliation of expected loss to be paid to expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (1) the contra-paid because the payments have been made but have not yet been expensed, (2) for transactions with a net expected recovery, the addition of claim payments that have been made (and therefore are not included in expected loss to be paid) that are expected to be recovered in the future (and therefore have also reduced expected loss to be paid), and (3) loss reserves that have

already been established (and therefore, expensed but not yet paid).

**Reconciliation of Present Value of Net Expected Loss to be Paid
and Present Value of Net Expected Loss to be Expensed**

	As of June 30, 2011	As of December 31, 2010
	(in millions)	
		(restated)
Net expected loss to be paid	\$ 713.0	\$ 408.8
Less: net expected loss to be paid for FG VIEs	(5.6)	49.2
Total	718.6	359.6
Contra-paid, net	88.6	121.3
Salvage and subrogation recoverable, net(1)	271.9	903.0
Loss and LAE reserve, net(2)	(490.0)	(550.0)
Net expected loss to be expensed(3)	\$ 589.1	\$ 833.9

(1) June 30, 2011 amount consists of gross salvage and subrogation amounts of \$307.1 million net of ceded amounts of \$35.2 million which is recorded in reinsurance balances payable. The December 31, 2010 amount consists of gross

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

salvage and subrogation amounts of \$1,032.4 million net of ceded amounts of \$129.4 million which is recorded in reinsurance balances payable.

(2) Represents loss and LAE reserves, net of reinsurance recoverable on unpaid losses, excluding \$2.1 million in reserves for other runoff lines of business as of June 30, 2011 and December 31, 2010.

(3) Excludes \$260.3 million and \$211.9 million as of June 30, 2011 and December 31, 2010, respectively, related to consolidated FG VIEs.

The Company's Approach to Projecting Losses in U.S. RMBS

The Company projects losses in U.S. RMBS on a transaction-by-transaction basis by projecting the performance of the underlying pool of mortgages over time and then applying the structural features (i.e., payment priorities and tranching) of the RMBS to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted to a present value using a risk-free rate. For transactions, other than those covered under Bank of America Agreement, where the Company projects it will receive recoveries from providers of R&W, the projected amount of recoveries is included in the projected cash flows from the collateral. The Company runs, and probability-weights, several sets of assumptions (referred to as scenarios) regarding potential mortgage collateral performance.

The further behind a mortgage borrower falls in payments, the more likely it is that he or she will default. The rate at which borrowers from a particular delinquency category (number of monthly payments behind) eventually default is referred to as the liquidation rate. Liquidation rates may be derived from observed roll rates, which are the rates at which loans progress from one delinquency category to the next and eventually to default and liquidation. The Company applies liquidation rates to the mortgage loan collateral in each delinquency category and makes certain timing assumptions to project near-term mortgage collateral defaults from loans that are currently delinquent.

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default, and when, by first converting the projected near-term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates, then projecting how the conditional default rates will develop

over time. Loans that are defaulted pursuant to the conditional default rate after the liquidation of currently delinquent loans represent defaults of currently performing loans. A conditional default rate is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (or collateral pool balance). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal repayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector based on experience to date. Further detail regarding the assumptions and variables the Company used to project collateral losses in its U.S. RMBS portfolio may be found below in the sections *U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien* and *U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM, Subprime and Prime*.

The Company is in the process of enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools. The Company calculates a credit to the RMBS issuer for such recoveries where the R&W were provided by an entity the Company believes to be financially viable and where the Company already has access or believes it will attain access to the underlying mortgage loan files. In second lien RMBS transactions this credit is based on a percentage of actual repurchase rates achieved, while in first lien RMBS transactions, other than those covered under the Bank of America Agreement, this credit is estimated by reducing collateral losses projected by the Company to reflect a percentage of the recoveries the Company believes it will achieve, which factor is derived based on the number of breaches identified to date and incorporated scenarios based on the amounts the Company was able to negotiate under the Bank of America Agreement. The first lien approach is different from the second lien approach because the Company's first lien transactions have multiple tranches and a more complicated method is required to correctly allocate credit to each tranche. In each case, the credit is a function of the projected lifetime collateral losses in the collateral pool, so an increase in projected collateral losses increases the R&W credit calculated by the Company for the RMBS issuer. Further detail regarding how the Company calculates these credits may be found under *Breaches of Representations and Warranties* below.

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The Company projects the overall future cash flow from a collateral pool by adjusting the payment stream from the principal and interest contractually due on the underlying mortgages for (a) the collateral losses it projects as described above, (b) assumed voluntary prepayments and (c) recoveries for breaches of R&W as described above. The Company then applies an individual model of the structure of the transaction to the projected future cash flow from that transaction's collateral pool to project the Company's future claims and claim reimbursements for that individual transaction. Finally, the projected claims and reimbursements are discounted to a present value using a risk-free rate. As noted above, the Company runs several sets of assumptions regarding mortgage collateral performance, or scenarios, and probability-weights them.

Second Quarter-End 2011 U.S. RMBS Loss Projections

In both Second Quarter 2011 and First Quarter 2011, the Company chose to use loss projection curves with the same shape as that used in the fourth quarter of 2010, including retaining the initial plateau period it had used in the fourth quarter of 2010. The Company's RMBS projection methodology assumes that the housing and mortgage markets will eventually recover but are doing so at a slower than expected pace.

The scenarios used to project RMBS collateral losses in Second Quarter 2011 were essentially the same as those used in the First Quarter 2011, except that (as noted above), based on its observation of the continued elevated levels of early stage delinquencies, the Company adjusted its loss projection curves to reflect its view that the recovery would be longer than it had anticipated in the First Quarter 2011. The scenarios used in Second Quarter 2011 were also the same as those employed at year-end 2010, with the following exceptions: (i) the initial plateau periods were again retained; (ii) an increase in the expected period for reaching the final conditional default rate for second lien transactions from that used in the fourth quarter of 2010 was established for the First Quarter 2011 and retained in the Second Quarter 2011; (iii) the initial Alt-A first lien and Option ARM loss severities were increased from 60% at year-end 2010 to 65% in both the First and Second Quarters 2011; and (iv) the Company's probability weightings from the fourth quarter of 2010 were adjusted in First Quarter 2011 to reflect changes to each of its second lien scenarios and such adjustments were retained in the Second Quarter 2011.

The Company also used generally the same methodology to project the credit received by the RMBS issuers for recoveries in R&W in Second Quarter 2011 as it used for the First Quarter 2011 and at year-end 2010. The primary difference relates to the execution of the Bank of America Agreement and the inclusion of the terms of the agreement as a potential scenario in transactions not covered by the Bank of America Agreement in both the First and Second Quarters 2011 that were not included at year-end 2010. During the First Quarter 2011, the Company added R&W credits for two second lien transactions where the Company concluded it had the right to obtain loan files that it had not previously concluded were accessible. The Company also added R&W credits for ten first lien transactions where either it concluded it had the right to obtain loan files that it had not previously concluded were accessible or it anticipates receiving a benefit due to the Bank of America Agreement. See "Bank of America Agreement" in Note 3. During the Second Quarter the Company did not calculate an R&W benefit for any credit for which it had not previously calculated an R&W benefit.

U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien

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

The delinquency performance of HELOC and closed-end second lien exposures included in transactions insured by the Company began to deteriorate in 2007, and such transactions, particularly those originated in the period from 2005 through 2007, continue to perform below the Company's original underwriting expectations. While insured securities benefit from structural protections within the transactions designed to absorb collateral losses in excess of previous historically high levels, in many second lien RMBS projected losses now exceed those structural protections.

The Company believes the primary variables affecting its expected losses in second lien RMBS transactions are the amount and timing of future losses in the collateral pool supporting the transactions and the amount of loans repurchased for breaches of R&W. Expected losses are also a function of the structure of the transaction; the voluntary prepayment rate (typically also referred to as conditional prepayment rate of the collateral); the interest rate environment; and assumptions

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about the draw rate and loss severity. These variables are interrelated, difficult to predict and subject to considerable volatility. If actual experience differs from the Company's assumptions, the losses incurred could be materially different from the estimate. The Company continues to update its evaluation of these exposures as new information becomes available.

The following table shows the key assumptions used in the calculation of estimated expected loss to be paid for direct vintage 2004 - 2008 second lien U.S. RMBS.

Assumptions in Base Case Expected Loss Estimates**Second Lien RMBS(1)**

HELOC Key Variables	As of	As of	As of
	June 30, 2011	March 31, 2011	December 31, 2010
Plateau conditional default rate	4.6 - 34.6%	4.7 - 21.4%	4.2 - 22.1%
Final conditional default rate trended down to	0.4 - 3.2%	0.4 - 3.2%	0.4 - 3.2%
Expected period until final conditional default rate	36 months	36 months	24 months
Initial conditional prepayment rate	0.9 - 15.5%	0.9 - 12.6%	3.3 - 17.5%
Final conditional prepayment rate	10%	10%	10%
Loss severity	98%	98%	98%
Initial draw rate	0.0 - 8.6%	0.0 - 5.2%	0.0 - 6.8%

Closed-End Second Lien Key Variables	As of	As of	As of
	June 30, 2011	March 31, 2011	December 31, 2010
Plateau conditional default rate	4.8 - 22.8%	7.2 - 28.9%	7.3 - 27.1%
Final conditional default rate trended down to	2.9 - 8.1%	2.9 - 8.1%	2.9 - 8.1%
Expected period until final conditional default rate achieved	36 months	36 months	24 months
Initial conditional prepayment rate	1.4 - 12.0%	0.9 - 12.7%	1.3 - 9.7%
Final conditional prepayment rate	10%	10%	10%
Loss severity	98%	98%	98%

(1) Represents assumptions for most heavily weighted scenario (the base case).

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally charged off (treated as defaulted) by the securitization's servicer once the loan is 180 days past due. Most second lien transactions report the amount of loans in five monthly delinquency categories (i.e., 30-59 days past due, 60-89 days past due, 90-119 days past due, 120-149 days past due and 150-179 days past due). The Company estimates the amount of loans that will default over the next five months by calculating current representative liquidation rates (the percent of loans in a given delinquency status that are assumed to ultimately default) from selected representative transactions and then applying an average of the preceding 12 months' liquidation rates to the amount of loans in the delinquency categories. The amount of loans projected to default in the first through fifth months is expressed as a conditional default rate. The first four months' conditional default rate is calculated by applying the liquidation rates to the current-period past-due balances (i.e., the 150-179 day balance is liquidated in the first projected month, the 120-149 day balance is liquidated in the second projected month, the 90-119 day balance is liquidated in the third projected month and the 60-89 day balance is liquidated in the fourth projected month). For the fifth month the conditional default rate is calculated using the average 30-59 day past due balances for the prior three months. An average of the third, fourth and fifth month conditional default rates is then used as the basis for the plateau period that follows the embedded five months of losses.

In Six Months 2011 in the base scenario, the conditional default rate (the plateau conditional default rate) was held constant for one month. Once the plateau period has ended, the conditional default rate is assumed to gradually trend down in uniform increments to its final long-term steady state conditional default rate. In the base scenario, the time over which the conditional default rate trends down to its final conditional default rate is 30 months (compared with 18 months at year-end 2010). Therefore, the total stress period for second lien transactions would be 36 months, comprising five months of delinquent data, a one-month plateau period and 30 months of decrease to the steady state conditional default rate. This is 12 months longer than the 24 months of total stress period used at year-end 2010. The long-term steady state conditional default rates are calculated as the constant conditional default rates that would have yielded the amount of losses originally expected at underwriting. When a second lien loan defaults, there is generally very low recovery. Based on current expectations of future performance, the Company assumes that it will only recover 2% of the collateral.

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The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected (which is a function of the conditional default rate and the loan balance over time) as well as the amount of excess spread (which is the excess of the interest paid by the borrowers on the underlying loan over the amount of interest and expenses owed on the insured obligations). In the base case, the current conditional prepayment rate is assumed to continue until the end of the plateau before gradually increasing to the final conditional prepayment rate over the same period the conditional default rate decreases. For transactions where the initial conditional prepayment rate is higher than the final conditional prepayment rate, the initial conditional prepayment rate is held constant. The final conditional prepayment rate is assumed to be 10% for both HELOC and closed-end second lien transactions. This level is much higher than current rates, but lower than the historical average, which reflects the Company's continued uncertainty about performance of the borrowers in these transactions. This pattern is consistent with how the Company modeled the conditional prepayment rate at year-end 2010 and in the First Quarter 2011. To the extent that prepayments differ from projected levels it could materially change the Company's projected excess spread and losses.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices, and HELOC draw rates (the amount of new advances provided on existing HELOCs expressed as a percentage of current outstanding advances). For HELOC transactions, the draw rate is assumed to decline from the current level to a final draw rate over a period of three months. The final draw rates were assumed to range from 0.0% to 4.3%.

In estimating expected losses, the Company modeled and probability-weighted three possible conditional default rate curves applicable to the period preceding the return to the long-term steady state conditional default rate. Given that draw rates have been reduced to levels below the historical average and that loss severities in these products have been higher than anticipated at inception, the Company believes that the level of the elevated conditional default rate and the length of time it will persist is the primary driver behind the likely amount of losses the collateral will suffer (before considering the effects of repurchases of ineligible loans). The Company continues to evaluate the assumptions affecting its modeling results.

At June 30, 2011, the Company's base case assumed a one-month conditional default rate plateau and a 30-month ramp-down (for a total stress period of 36 months). Increasing the conditional default rate plateau to four months and keeping the ramp-down at 30-months (for a total stress period of 39 months) would increase the expected loss by approximately \$72.1 million for HELOC transactions and \$7.9 million for closed-end second lien transactions. On the other hand, keeping the conditional default rate plateau at one month but decreasing the length of the conditional default rate ramp-down to a 24 month assumption (for a total stress period of 30 months) would decrease the expected loss by approximately \$66.7 million for HELOC transactions and \$3.0 million for closed-end second lien transactions.

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

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

The performance of the Company's first lien RMBS exposures began to deteriorate in 2007, and such transactions, particularly those originated in the period from 2005 through 2007, continue to perform below the Company's original underwriting expectations. The Company currently projects first lien collateral losses many times those expected at the time of underwriting. While insured securities benefited from structural protections within the transactions designed to absorb some of the collateral losses, in many first lien RMBS transactions, projected losses exceed those structural protections.

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are delinquent or in foreclosure or where the loan has been foreclosed and the RMBS issuer owns the underlying real estate). An increase in non-performing loans beyond that projected in the previous period is one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various delinquency

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categories. The Company arrived at its liquidation rates based on data in loan performance and assumptions about how delays in the foreclosure process may ultimately affect the rate at which loans are liquidated. The liquidation rate is a standard industry measure that is used to estimate the number of loans in a given aging category that will default within a specified time period. The Company projects these liquidations to occur over two years.

The following table shows liquidation assumptions for various delinquency categories.

First Lien Liquidation Rates

	June 30, 2011	March 31, 2011	December 31, 2010
30 - 59 Days Delinquent			
Alt-A first lien	50%	50%	50%
Option ARM	50	50	50
Subprime	45	45	45
60 - 89 Days Delinquent			
Alt-A first lien	65	65	65
Option ARM	65	65	65
Subprime	65	65	65
90 - Bankruptcy			
Alt-A first lien	75	75	75
Option ARM	75	75	75
Subprime	70	70	70
Foreclosure			
Alt-A first lien	85	85	85
Option ARM	85	85	85
Subprime	85	85	85
Real Estate Owned			
Alt-A first lien	100	100	100
Option ARM	100	100	100
Subprime	100	100	100

While the Company uses liquidation rates as described above to project defaults of non-performing loans, it projects defaults on presently current loans by applying a conditional default rate trend. The start of that conditional default rate trend is based on the defaults the Company projects will emerge from currently nonperforming loans. The total amount of expected defaults from the non-performing loans is translated into

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a constant conditional default rate (*i.e.*, the conditional default rate plateau), which, if applied for each of the next 24 months, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The conditional default rate thus calculated individually on the collateral pool for each RMBS is then used as the starting point for the conditional default rate curve used to project defaults of the presently performing loans.

In the base case, each transaction's conditional default rate is projected to improve over 12 months to an intermediate conditional default rate (calculated as 15% of its conditional default rate plateau); that intermediate conditional default rate is held constant for 36 months and then trails off in steps to a final conditional default rate of 5% of the conditional default rate plateau. Under the Company's methodology, defaults projected to occur in the first 24 months represent defaults that can be attributed to loans that are currently delinquent or in foreclosure, while the defaults projected to occur using the projected conditional default rate trend after the first 24 month period represent defaults attributable to borrowers that are currently performing.

Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions have reached historic high levels, and the Company is assuming that these historic high levels will continue for another year. The Company determines its initial loss severity based on actual recent experience. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning in June 2012 and, in the base scenario, decline over two years to 40%.

The following table shows the key assumptions used in the calculation of expected loss to be paid for direct vintage 2004 - 2008 first lien U.S. RMBS.

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	As of June 30, 2011	As of March 31, 2011	As of December 31, 2010
Alt-A First Lien			
Plateau conditional default rate	2.9 - 36.6%	2.7 - 40.2%	2.6 - 42.2%
Intermediate conditional default rate	0.4 - 5.5%	0.4 - 6.0%	0.4 - 6.3%
Final conditional default rate	0.1 - 1.8%	0.1 - 2.0%	0.1 - 2.1%
Initial loss severity	65%	65%	60%
Initial conditional prepayment rate	0.0 - 28.3%	0.4 - 40.5%	0.0 - 36.5%
Final conditional prepayment rate	10%	10%	10%
Option ARM			
Plateau conditional default rate	13.1 - 32.1%	12.3 - 33.2%	11.7 - 32.7%
Intermediate conditional default rate	2.0 - 4.8%	1.8 - 5.0%	1.8 - 4.9%
Final conditional default rate	0.7 - 1.6%	0.6 - 1.7%	0.6 - 1.6%
Initial loss severity	65%	65%	60%
Initial conditional prepayment rate	0.0 - 7.2%	0.0 - 24.5%	0.0 - 17.7%
Final conditional prepayment rate	10%	10%	10%
Subprime			
Plateau conditional default rate	7.7 - 34.2%	8.0 - 34.3%	9.0 - 34.6%
Intermediate conditional default rate	1.2 - 5.1%	1.2 - 5.1%	1.3 - 5.2%
Final conditional default rate	0.4 - 1.7%	0.4 - 1.7%	0.4 - 1.7%
Initial loss severity	80%	80%	80%
Initial conditional prepayment rate	0.0 - 9.3%	0.0 - 13.3%	0.0 - 13.5%
Final conditional prepayment rate	10%	10%	10%

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected (since that amount is a function of the conditional default rate and the loan balance over time) as well as the amount of excess spread (the amount by which the interest paid by the borrowers on the underlying loan exceeds the amount of interest owed on the insured obligations). The assumption for the conditional prepayment rate follows a similar pattern to that of the conditional default rate. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final conditional prepayment rate, which is assumed to be either 10% or 15% depending on the scenario run. For transactions where the initial conditional prepayment rate is higher than the final conditional prepayment rate, the initial conditional prepayment rate is held constant.

The ultimate performance of the Company's first lien RMBS transactions remains highly uncertain and may be subject to considerable volatility due to the influence of many factors, including the level and timing of loan defaults, changes in housing prices and other variables. The

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Company will continue to monitor the performance of its RMBS exposures and will adjust the loss projections for those transactions based on actual performance and management's estimates of future performance.

In estimating expected losses, the Company modeled and probability-weighted sensitivities for first lien transactions by varying its assumptions of how fast recovery is expected to occur. The primary variable when modeling sensitivities was how quickly the conditional default rate returned to its modeled equilibrium, which was defined as 5% of the current conditional default rate. The Company also stressed conditional prepayment rates and the speed of recovery of loss severity rates. In a somewhat more stressful environment than that of the base case, where the conditional default rate recovery was more gradual and the final conditional prepayment rate was 15% rather than 10%, expected loss to be paid would increase by approximately \$8.1 million for Alt-A first lien, \$55.8 million for Option ARM, \$13.8 million for subprime and \$0.2 million for prime transactions. In an even more stressful scenario where the conditional default rate plateau was extended three months (to be 27 months long) before the same more gradual conditional default rate recovery and loss severities were assumed to recover over four rather than two years (and subprime loss severities were assumed to recover only to 60%), expected loss to be paid would increase by approximately \$39.5 million for Alt-A first lien, \$140.7 million for Option ARM, \$149.0 million for subprime and \$1.5 million for prime transactions. The Company also considered a scenario where the recovery was faster than in its base case. In this scenario, where the conditional default rate plateau was three months shorter (21 months, effectively assuming that liquidation rates would improve) and the conditional default rate recovery was more pronounced, expected loss to be paid would decrease by approximately \$22.4 million for Alt-A first lien, \$76.8 million for Option ARM, \$29.7 million for subprime and \$0.9 million for prime transactions.

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Breaches of Representations and Warranties

The Company is pursuing reimbursements for breaches of R&W regarding loan characteristics. Performance of the collateral underlying certain first and second lien securitizations has substantially differed from the Company's original expectations. The Company has employed several loan file diligence firms and law firms as well as devoted internal resources to review the mortgage files surrounding many of the defaulted loans. The Company's success in these efforts resulted in two negotiated agreements, to date, in respect of the Company's R&W claims, including on April 14, 2011 with Bank of America as described under Bank of America Agreement in Note 3. Additionally, for the RMBS transactions as to which the Company had not settled its claims for breaches of R&W as of June 30, 2011, the Company had performed a detailed review of approximately 13,900 second lien and 16,200 first lien defaulted loan files, representing approximately \$959 million in second lien and \$4,587 million in first lien outstanding par of defaulted loans underlying insured transactions. The Company identified approximately 12,300 second lien transaction loan files and approximately 14,700 first lien transaction loan files that breached one or more R&W regarding the characteristics of the loans, such as misrepresentation of income or employment of the borrower, occupancy, undisclosed debt and non-compliance with underwriting guidelines at loan origination. The Company continues to review new files as new loans default and as new loan files are made available to it. The Company generally obtains the loan files from the originators or servicers (including master servicers). In some cases, the Company requests loan files via the trustee, which then requests the loan files from the originators and/or servicers. On second lien loans, the Company requests loan files for all charged-off loans. On first lien loans, the Company requests loan files for all severely (60+ days) delinquent loans and all liquidated loans. Recently, the Company started requesting loan files for all the loans (both performing and non-performing) in certain deals to limit the number of requests for additional loan files as the transactions season and loans charge-off, become 60+ days delinquent or are liquidated. (The Company takes no repurchase credit for R&W breaches on loans that are expected to continue to perform.) In addition to Bank of America, as of June 30, 2011, the Company had reached agreement with other R&W providers for the repurchase of \$38.4 million of second lien and \$47.5 million of first lien mortgage loans. The \$38.4 million for second lien loans represents the calculated repurchase price for 466 loans, and the \$47.5 million for first lien loans represents the calculated repurchase price for 142 loans. The repurchase proceeds are paid to the RMBS transactions and distributed in accordance with the payment priorities set out in the transaction agreements, so the proceeds are not necessarily allocated to the Company on a dollar-for-dollar basis. Proceeds projected to be reimbursed to the Company on transactions where the Company has already paid claims are viewed as a recovery on paid losses. For transactions where the Company has not already paid claims, projected recoveries reduce projected loss estimates. In either case, projected recoveries have no effect on the amount of the Company's exposure. These amounts reflect payments made pursuant to the negotiated transaction agreements and not payments made pursuant to legal settlements. See Recovery Litigation below for a description of the related legal proceedings the Company has commenced.

The Company has included in its net expected loss estimates as of June 30, 2011 an estimated benefit from loan repurchases related to breaches of R&W of \$1.5 billion, which includes amounts with Bank of America. The amount of benefit recorded as a reduction of expected losses was calculated by extrapolating each transaction's breach rate on defaulted loans to projected defaults and, in the case of transactions subject to Bank of America Agreement, the estimated impact of that agreement on the relevant transactions. See Bank of America Agreement in Note 3. The Company did not incorporate any gain contingencies or damages paid from potential litigation in its estimated repurchases. The amount the Company will ultimately recover related to contractual R&W is uncertain and subject to a number of factors including the counterparty's ability to pay, the number and loss amount of loans determined to have breached R&W and, potentially, negotiated settlements or litigation recoveries. As such, the Company's estimate of recoveries is uncertain and actual amounts realized may differ significantly from these estimates. In arriving at the expected recovery from breaches of R&W, the Company considered the creditworthiness of the provider of the R&W, the number of

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breaches found on defaulted loans, the success rate in resolving these breaches with the provider of the R&W and the potential amount of time until the recovery is realized.

The calculation of expected recovery from breaches of R&W involved a variety of scenarios, which ranged from the Company recovering substantially all of the losses it incurred due to violations of R&W to the Company realizing very limited recoveries. The Company did not include any recoveries related to breaches of R&W in amounts greater than the losses it expected to pay under any given cash flow scenario. These scenarios were probability-weighted in order to determine the recovery incorporated into the Company's estimate of expected losses. This approach was used for both loans that had already defaulted and those assumed to default in the future. In all cases, recoveries were limited to amounts paid or expected to be paid by the Company.

The following table shows the balance sheet classification of estimated R&W benefits:

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Balance Sheet Classification of R&W Benefit

	As of June 30, 2011			As of December 31, 2010		
Benefit for R&W	Effect of Consolidating FG VIEs	Reported on Balance Sheet	Benefit for R&W	Effect of Consolidating FG VIEs	Reported on Balance Sheet	
(in billions)						
Salvage and subrogation recoverable	\$ 0.4	\$ (0.2)	\$ 0.2	\$ 0.9	\$ (0.1)	
Loss and LAE reserve	0.9	(0.1)	0.8	0.5	(0.1)	
Unearned premium reserve	0.2		0.2	0.2		
Total	\$ 1.5	\$ (0.3)	\$ 1.2	\$ 1.6	\$ (0.2)	

The following table represents total estimated recoveries netted in expected loss to be paid, from defective mortgage loans included in certain first and second lien U.S. RMBS loan securitizations that it insures.

Roll Forward of Estimated Benefit from Recoveries from Representation and Warranty Breaches,

Net of Reinsurance

	Future Net R&W Benefit at December 31, 2010	R&W Development and Accretion of Discount During Six Months 2011	R&W Recovered During Six Months 2011(1)	Future Net R&W Benefit at June 30, 2011(2)
(in millions)				
Prime first lien	\$ 1.1	\$ 1.8	\$	\$ 2.9
Alt-A first lien	81.0	46.6		127.6
Option ARM	309.3	449.2	(47.3)	711.2
Subprime	26.8	54.7		81.5
Closed-end second lien	178.2	61.5		239.7
HELOC	1,004.1	157.1	(850.8)	310.4
Total	\$ 1,600.5	\$ 770.9	\$ (898.1)	\$ 1,473.3

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	Future Net R&W Benefit at December 31, 2009	R&W Development and Accretion of Discount During Six Months 2010	R&W Recovered During Six Months 2010(1)	Future Net R&W Benefit at June 30, 2010
	(in millions)			
Prime first lien	\$	\$	0.8	\$ 0.8
Alt-A first lien	64.2		15.0	79.2
Option ARM	203.7		52.4	242.8
Subprime				
Closed-end second lien	76.5		46.5	123.0
HELOC	828.7		97.2	875.0
Total	\$ 1,173.1	\$	211.9	\$ 1,320.8

(1) Gross amounts recovered are \$1,015.0 million and \$72.0 million for Six Months 2011 and 2010, respectively.

(2) Includes R&W benefit of \$588.9 million attributable to transactions covered by the Bank of America Agreement.

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Assured Guaranty Ltd.

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June 30, 2011

Financial Guaranty Insurance U.S. RMBS Risks with R&W Benefit

as of June 30, 2011 and December 31, 2010

	Number of Risks(1) as of		Outstanding Principal and Interest as of	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
			(dollars in millions)	
Prime first lien	1	1	\$ 54.5	\$ 57.1
Alt-A first lien	20	17	1,826.7	1,882.8
Option ARM	11	10	1,914.8	1,909.8
Subprime	4	1	982.7	228.7
Closed-end second lien	4	4	396.3	444.9
HELOC	15	13	3,844.9	2,969.8
Total	55	46	\$ 9,019.9	\$ 7,493.1

(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments.

The following table provides a breakdown of the development and accretion amount in the roll forward of estimated recoveries associated with alleged breaches of R&W:

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
Inclusion of new deals with breaches of R&W during period	\$	\$	\$ 107.1	\$ 62.4
Change in recovery assumptions as the result of additional file review and recovery success		35.5	198.4	65.3
Estimated increase(decrease) in defaults that will result in additional breaches	(5.8)	18.4	34.0	82.1
Results of Bank of America Agreement	95.6		429.7	
Accretion of discount on balance	1.1	2.0	1.7	2.1
Total	\$ 90.9	\$ 55.9	\$ 770.9	\$ 211.9

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The \$90.9 million and \$770.9 million R&W development and accretion of discount during Second Quarter 2011 and Six Months 2011, respectively, in the table above resulted in large part from the Bank of America Agreement executed on April 14, 2011 related to the Company's R&W claims and described under Bank of America Agreement in Note 3. The benefit of the Bank of America Agreement is included in the R&W credit for the transactions directly affected by the agreement. In addition, the Bank of America Agreement caused the Company to increase the probability of successful pursuit of R&W claims against other providers where the Company believed those providers were breaching at a similar rate. The remainder of the development primarily relates to additional projected defaults. The Company assumes that recoveries on HELOC and closed-end second lien loans that were not subject to the Bank of America Agreement will occur in two to four years from the balance sheet date depending on the scenarios and that recoveries on Alt-A first lien, Option ARM and subprime loans will occur as claims are paid over the life of the transactions. Recoveries on second lien transactions subject to the Bank of America Agreement will be paid in full by March 31, 2012.

As of June 30, 2011, cumulative collateral losses on the 21 first lien RMBS transactions were approximately \$1.6 billion. The Company estimates that cumulative projected collateral losses for these first lien transactions will be \$4.84 billion, which will result in estimated gross expected losses to the Company of \$630.9 million before considering R&W recoveries from Bank of America, and \$126.8 million after considering such R&W recoveries. As of June 30, 2011, the Company had been reimbursed \$14.9 million in respect of the covered first lien transactions under the Bank of America Agreement.

Student Loan Transactions

The Company has insured or reinsured \$2.9 billion net par of student loan securitizations, \$1.5 billion issued by private issuers and classified as asset-backed and \$1.4 billion issued by public authorities and classified as public finance. Of these amounts, \$242.3 million and \$531.9 million, respectively, are rated BIG. The Company is projecting approximately \$60.7 million and \$12.6 million, respectively, of expected loss to be paid in these portfolios. In general the losses are due to: (i) the poor credit performance of private student loan collateral; (ii) high interest rates on auction rate securities with respect

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

to which the auctions have failed or (iii) high interest rates on variable rate demand obligations (VRDO) that have been put to the liquidity provider by the holder and are therefore bearing high bank bond interest rates. The largest of these losses was approximately \$32.8 million and related to a transaction backed by a pool of private student loans ceded to AG Re by another monoline insurer. The guaranteed bonds were issued as auction rate securities that now bear a high rate of interest due to the primary insurer's downgrade. Further, the underlying loan collateral has performed below expectations.

XXX Life Insurance Transactions

The Company has insured \$2.0 billion of net par in XXX life insurance reserve securitizations based on discrete blocks of individual life insurance business. In each such transaction the monies raised by the sale of the bonds insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The monies are invested at inception in accounts managed by third party investment managers. In order for the Company to incur an ultimate net loss on these transactions, adverse experience on the underlying block of life insurance policies and/or credit losses in the investment portfolio would need to exceed the level of credit enhancement built into the transaction structures. In particular, such credit losses in the investment portfolio could be realized in the event that circumstances arise resulting in the early liquidation of assets at a time when their market value is less than their intrinsic value.

The Company's \$2.0 billion net par of XXX life insurance transactions includes, as of June 30, 2011, a total of \$882.5 million rated BIG, consisting of Class A-2 Floating Rate Notes issued by Ballantyne Re p.l.c and Series A-1 Floating Rate Notes issued by Orkney Re II p.l.c (Orkney Re II). The Ballantyne Re and Orkney Re II XXX transactions had material amounts of their assets invested in U.S. RMBS transactions. Based on its analysis of the information currently available, including estimates of future investment performance provided by the current investment manager, and projected credit impairments on the invested assets and performance of the blocks of life insurance business at June 30, 2011, the Company's gross expected loss, prior to reinsurance or netting of unearned premium, for its two BIG XXX insurance transactions was \$72.9 million. The Company's net loss and LAE reserve was \$61.2 million.

Other Notable Loss or Claim Transactions

The preceding pages describe the asset classes in the financial guaranty portfolio that encompass most of the Company's projected losses. The Company also projects losses on a number of other transactions, the most significant of which are described in the following paragraphs.

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The Company has projected expected loss to be paid of \$31.1 million on its total net par outstanding of \$495.8 million on Jefferson County Alabama Sewer Authority exposure. This estimate is based primarily on the Company's view of how much debt the Authority should be able to support under certain probability-weighted scenarios. See Note 17.

The Company has projected expected loss to be paid of \$6.5 million on a transaction backed by revenues generated by telephone directory yellow pages in various jurisdictions with a net par of \$110.7 million and guaranteed by Ambac Assurance Corporation (Ambac). This estimate is based primarily on the Company's view of how quickly yellow pages revenues are likely to decline in the future.

The Company has projected expected loss to be paid of \$14.5 million on one transaction from 2000 backed by manufactured housing loans with a net par of \$67.1 million. The Company insures a total of \$358.8 million net par of securities backed by manufactured housing loans, a total of \$240.5 million rated BIG.

The Company has \$165.0 million of net par exposure to the city of Harrisburg, Pennsylvania, of which \$93.1 million is BIG. The Company has paid \$4.5 million in net claims to date, and expects a full recovery.

Recovery Litigation

As of August 9, 2011, the Company had filed lawsuits with regard to six second lien U.S. RMBS transactions insured by AGM or AGC, alleging breaches of R&W both in respect of the underlying loans in the transactions and the accuracy of the information provided to AGM and AGC, and failure to cure or repurchase defective loans identified by AGM and AGC to such persons. These transactions consist of the ACE Securities Corp. Home Equity Loan Trust, Series 2006-GP1, the ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL2 and the ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL3 transactions (in each of which AGC or AGM has sued Deutsche Bank AG affiliates DB Structured Products, Inc. and ACE Securities Corp. in the Supreme Court of the State of New York), the SACO I Trust 2005-GP1 transaction (in which AGC has sued JPMorgan Chase & Co.'s affiliate EMC Mortgage Corporation in the United States

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

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District Court for the Southern District of New York) and the Flagstar Home Equity Loan Trust, Series 2005-1 and Series 2006-2 transactions (in which AGM has sued Flagstar Bank, FSB, Flagstar Capital Markets Corporation and Flagstar ABS, LLC in the United States District Court for the Southern District of New York). In these lawsuits, AGM and AGC seek for the R&W provider to repurchase the defective loans and to indemnify or reimburse AGM or AGC for its losses.

AGM has also filed a lawsuit in the Superior Court of the State of California, County of Los Angeles, against UBS Securities LLC and Deutsche Bank Securities, Inc., as underwriters, as well as several named and unnamed control persons of IndyMac Bank, FSB and related IndyMac entities, with regard to two U.S. RMBS transactions that AGM had insured, seeking damages for alleged violations of state securities laws and breach of contract, among other claims. One of these transactions (referred to as IndyMac Home Equity Loan Trust 2007-H1) is a second lien transaction and the other (referred to as IndyMac IMSC Mortgage Loan Trust 2007-HOA-1) is a first lien transaction.

In December 2008, Assured Guaranty (UK) Ltd. (AGUK) sued J.P. Morgan Investment Management Inc. (JPMIM), the investment manager in the Orkney Re II transaction, in the Supreme Court of the State of New York alleging that JPMIM engaged in breaches of fiduciary duty, gross negligence and breaches of contract based upon its handling of the investments of Orkney Re II. In January 2010, the court ruled against AGUK on a motion to dismiss filed by JPMIM, dismissing the AGUK s claims for breaches of fiduciary duty and gross negligence on the ground that such claims are preempted by the Martin Act, which is New York s blue sky law, such that only the New York Attorney General has the authority to sue JPMIM. AGUK appealed and, in November 2010, the Appellate Division (First Department) issued a ruling, ordering the court s order to be modified to reinstate AGUK s claims for breach of fiduciary duty and gross negligence and certain of its claims for breach of contract, in each case for claims accruing on or after June 26, 2007. In December 2010, JPMIM filed a motion for permission to appeal to the Court of Appeals on the Martin Act issue; that motion was granted in February 2011. Separately, at the trial court level, a preliminary conference order related to discovery was entered in February 2011 and discovery has commenced. See Note 17.

In June 2010, AGM sued JPMorgan Chase Bank, N.A. and JPMorgan Securities, Inc. (together, JPMorgan), the underwriter of debt issued by Jefferson County, in the Supreme Court of the State of New York alleging that JPMorgan induced AGM to issue its insurance policies in respect of such debt through material and fraudulent misrepresentations and omissions, including concealing that it had secured its position as underwriter and swap provider through bribes to Jefferson County commissioners and others. In December 2010, the court denied JPMorgan s motion to dismiss. AGM is continuing its risk remediation efforts for the Jefferson County exposure.

In September 2010, AGM, together with TD Bank, National Association and Manufacturers and Traders Trust Company, filed a complaint in the Court of Common Pleas in the Supreme Court of Pennsylvania against The Harrisburg Authority, The City of Harrisburg, Pennsylvania (the City), and the Treasurer of the City in connection with certain Resource Recovery Facility bonds and notes issued by the Harrisburg Authority, alleging, among other claims, breach of contract by both the Harrisburg Authority and the City, and seeking remedies including an order compelling the Harrisburg Authority to pay all unpaid and past due principal and interest and to charge and collect sufficient rates, rental and

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other charges adequate to carry out its pledge of revenues and receipts; an order compelling the City to budget for, impose and collect taxes and revenues sufficient to satisfy its obligations; and the appointment of a receiver for the Harrisburg Authority. See Note 17.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Net Loss Summary

The following table provides information on loss and LAE reserves net of reinsurance and salvage and subrogation recoverable on the consolidated balance sheets.

Loss and LAE Reserve, Net of Reinsurance and Salvage and Subrogation Recoverable

	Loss and LAE Reserve(1)	As of June 30, 2011 Salvage and Subrogation Recoverable(2)	Net (in millions)	Loss and LAE Reserve(1) (restated)	As of December 31, 2010 Salvage and Subrogation Recoverable(2)	Net (restated)
U.S. RMBS:						
First lien:						
Prime first lien	\$ 2.5	\$	\$ 2.5	\$ 1.2	\$	1.2
Alt-A first lien	46.5	5.5	41.0	39.2	2.6	36.6
Option ARM	136.1	106.3	29.8	223.3	63.0	160.3
Subprime	87.4	0.1	87.3	108.3	0.1	108.2
Total first lien	272.5	111.9	160.6	372.0	65.7	306.3
Second lien:						
Closed-end second lien	9.3	129.6	(120.3)	7.7	50.3	(42.6)
HELOC	59.8	182.9	(123.1)	7.1	843.4	(836.3)
Total second lien	69.1	312.5	(243.4)	14.8	893.7	(878.9)
Total U.S. RMBS	341.6	424.4	(82.8)	386.8	959.4	(572.6)
Other structured finance	149.2	2.5	146.7	131.1	1.4	129.7
Public finance	64.0	37.9	26.1	81.6	34.4	47.2
Total financial guaranty	554.8	464.8	90.0	599.5	995.2	(395.7)
Other	2.1		2.1	2.1		2.1
Subtotal	556.9	464.8	92.1	601.6	995.2	(393.6)
Effect of consolidating						
FG VIEs	(64.8)	(192.9)	128.1	(49.5)	(92.2)	42.7
Total(1)	\$ 492.1	\$ 271.9	\$ 220.2	\$ 552.1	\$ 903.0	\$ (350.9)

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(1) The June 30, 2011 loss and LAE consists of \$518.1 million loss and LAE reserve net of \$26.0 million of reinsurance recoverable on unpaid losses. The December 31, 2010 loss and LAE consists of \$574.4 million loss and LAE reserve net of \$22.3 million of reinsurance recoverable on unpaid losses.

(2) Salvage and subrogation recoverable is net of \$35.2 million and \$129.4 million in ceded salvage and subrogation recorded in reinsurance balances payable at June 30, 2011 and December 31, 2010, respectively.

The following table presents the loss and LAE by sector for financial guaranty insurance contracts that was recorded in the consolidated statements of operations. Amounts presented are net of reinsurance and net of the benefit for recoveries from breaches of R&W.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Loss and LAE Reported
on the Consolidated Statements of Operations

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(restated)	(restated)	(restated)	(restated)
	(in millions)			
Financial Guaranty:				
U.S. RMBS:				
First lien:				
Prime first lien	\$ 1.2	\$ (0.1)	\$ 1.1	\$ 13.5
Alt-A first lien	19.2	8.1	27.4	101.0
Option ARM	70.4	56.6	41.3	41.0
Subprime	4.3	16.3	(5.1)	155.5
Total first lien	95.1	80.9	64.7	155.5
Second lien:				
Closed-end second lien	(5.7)	(11.5)	(15.6)	(7.1)
HELOC	36.2	11.2	97.2	29.1
Total second lien	30.5	(0.3)	81.6	22.0
Total U.S. RMBS	125.6	80.6	146.3	177.5
Other structured finance	11.1	31.8	31.4	42.3
Public finance	4.1	(16.8)	(11.7)	10.9
Total financial guaranty	140.8	95.6	166.0	230.7
Other		0.1		0.1
Subtotal	140.8	95.7	166.0	230.8
Effect of consolidating FG VIEs	(16.9)	(10.0)	(67.6)	(34.2)
Total loss and LAE (recoveries)	\$ 123.9	\$ 85.7	\$ 98.4	\$ 196.6

Net Losses Paid on Financial Guaranty Insurance Contracts(1)

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
Financial Guaranty:				
U.S. RMBS:				
First lien:				

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Prime first lien	\$		\$		\$		\$	
Alt-A first lien		19.1		15.0		38.6		29.0
Option ARM		81.5		32.7		168.4		49.1
Subprime		0.6		1.4		15.7		2.3
Total first lien		101.2		49.1		222.7		80.4
Second lien:								
Closed-end second lien		14.6		19.4		41.7		39.9
HELOC		(727.3)		166.8		(662.7)		315.8
Total second lien		(712.7)		186.2		(621.0)		355.7
Total U.S. RMBS		(611.5)		235.3		(398.3)		436.1
Other structured finance		0.6		1.9		3.0		5.6
Public finance		0.2		9.8		9.2		34.2
Total financial guaranty		(610.7)		247.0		(386.1)		475.9
Other								
Subtotal		(610.7)		247.0		(386.1)		475.9
Effect of consolidating FG VIEs		46.0		(41.0)		(12.2)		(58.9)
Total	\$	(564.7)	\$	206.0	\$	(398.3)	\$	417.0

(1) Includes the effect of loss mitigation efforts and cessions not yet settled.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

The following table provides information on financial guaranty insurance and reinsurance contracts categorized as BIG as of June 30, 2011 and December 31, 2010.

Financial Guaranty Insurance BIG Transaction Loss Summary

June 30, 2011

	BIG Categories						Total BIG, Net(1)	Effect of Consolidating VIEs	Total
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(2)	151	(60)	84	(29)	129	(51)	364		364
Remaining weighted average contract period (in years)	11.5	14.8	9.3	7.1	8.7	6.0	9.8		9.8
Net outstanding exposure:									
Principal	\$ 7,724.4	\$ (847.4)	\$ 5,245.6	\$ (207.5)	\$ 8,102.6	\$ (678.4)	\$ 19,339.3	\$	\$ 19,339.3
Interest	4,074.5	(655.8)	2,566.7	(70.4)	2,343.8	(178.3)	8,080.5		8,080.5
Total	\$ 11,798.9	\$ (1,503.2)	\$ 7,812.3	\$ (277.9)	\$ 10,446.4	\$ (856.7)	\$ 27,419.8	\$	\$ 27,419.8
Expected cash flows	\$ 228.5	\$ (8.4)	\$ 1,548.4	\$ (85.8)	\$ 2,715.3	\$ (144.3)	\$ 4,253.7	\$ (593.8)	\$ 3,659.9
Potential recoveries(3)	(378.2)	26.9	(633.7)	23.4	(2,229.6)	103.8	(3,087.4)	588.2	(2,499.2)
Subtotal	(149.7)	18.5	914.7	(62.4)	485.7	(40.5)	1,166.3	(5.6)	1,160.7
Discount	42.3	(1.1)	(441.9)	38.3	(83.1)	(7.8)	(453.3)	11.2	(442.1)
Present value of expected cash flows	\$ (107.4)	\$ 17.4	\$ 472.8	\$ (24.1)	\$ 402.6	\$ (48.3)	\$ 713.0	\$ 5.6	\$ 718.6
Deferred premium revenue	\$ 141.8	\$ (14.4)	\$ 357.7	\$ (23.4)	\$ 1,084.6	\$ (129.9)	\$ 1,416.4	\$ (420.9)	\$ 995.5
Reserves (salvage)(4)	\$ (115.9)	\$ 17.9	\$ 281.4	\$ (14.6)	\$ (86.3)	\$ 7.5	\$ 90.0	\$ 128.1	\$ 218.1

Financial Guaranty Insurance BIG Transaction Loss Summary

December 31, 2010

	BIG 1	BIG 2	BIG Categories	
			BIG 2	BIG 3

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	Gross	Ceded	Gross	Ceded	Gross	Ceded	Total	Effect of	Total
	(restated)	(restated)	(restated)	(restated)	(dollars in millions)		Big, Net(1)	Consolidating	(restated)
								VIEs	
Number of risks(2)	119	(45)	98	(42)	115	(42)	332		332
Remaining weighted average contract period (in years)	11.7	16.0	8.4	7.9	8.8	6.0	9.6		9.6
Net outstanding exposure:									
Principal	\$ 6,173.0	\$ (723.3)	\$ 5,899.3	\$ (182.8)	\$ 7,954.5	\$ (673.6)	\$ 18,447.1	\$	\$ 18,447.1
Interest	3,599.5	(580.4)	2,601.6	(70.9)	2,490.7	(186.3)	7,854.2		7,854.2
Total	\$ 9,772.5	\$ (1,303.7)	\$ 8,500.9	\$ (253.7)	\$ 10,445.2	\$ (859.9)	\$ 26,301.3	\$	\$ 26,301.3
Expected cash flows	\$ 303.9	\$ (20.2)	\$ 2,036.6	\$ (68.9)	\$ 2,256.6	\$ (133.2)	\$ 4,374.8	\$ (384.2)	\$ 3,990.6
Potential recoveries(3)	(375.2)	37.4	(533.0)	16.6	(2,543.6)	197.5	(3,200.3)	354.8	(2,845.5)
Subtotal	(71.3)	17.2	1,503.6	(52.3)	(287.0)	64.3	1,174.5	(29.4)	1,145.1
Discount	(21.0)	(5.5)	(613.2)	21.5	(139.6)	(7.9)	(765.7)	(19.8)	(785.5)
Present value of expected cash flows	\$ (92.3)	\$ 11.7	\$ 890.4	\$ (30.8)	\$ (426.6)	\$ 56.4	\$ 408.8	\$ (49.2)	\$ 359.6
Deferred premium revenue	\$ 169.9	\$ (16.9)	\$ 572.4	\$ (30.3)	\$ 995.9	\$ (120.7)	\$ 1,570.3	\$ (263.9)	\$ 1,306.4
Reserves (salvage)(4)	\$ (112.9)	\$ 12.4	\$ 424.4	\$ (9.5)	\$ (815.9)	\$ 105.8	\$ (395.7)	\$ 42.7	\$ (353.0)

(1) Includes BIG amounts relating to FG VIEs.

(2) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments.

(3) Includes estimated future recoveries for breaches of R&W as well as excess spread, and draws on HELOCs.

(4) See table Components of net reserves (salvage) .

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Components of Net Reserves (Salvage)

	June 30, 2011	December 31, 2010
	(in millions)	
		(restated)
Loss and LAE reserve	\$ 518.1	\$ 574.4
Reinsurance recoverable on unpaid losses	(26.0)	(22.3)
Salvage and subrogation recoverable	(307.1)	(1,032.4)
Salvage and subrogation payable(1)	35.2	129.4
Total	220.2	(350.9)
Less: other	2.1	2.1
Financial guaranty reserves, net of salvage and subrogation	\$ 218.1	\$ (353.0)

(1) Recorded as a component of reinsurance balances payable.

Ratings Impact on Financial Guaranty Business

A downgrade of one of the Company's insurance subsidiaries may result in increased claims under financial guaranties issued by the Company. In particular, with respect to VRDO for which a bank has agreed to provide a liquidity facility, a downgrade of the insurer may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a bank bond rate that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% 3.00%, often with a floor of 7%, and capped at the maximum legal limit). In the event that the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right additionally to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to the insurer under its financial guaranty policy. As of August 9, 2011, the Company had insured approximately \$1.0 billion of par of VRDO issued by municipal obligors rated BBB- or lower pursuant to the Company's internal rating. For a number of such obligations, a downgrade of the insurer below A+, in the case of S&P, or below A1, in the case of Moody's Investor Services, Inc. (Moody's), triggers the ability of the bank to notify bondholders of the termination of the liquidity facility and to demand accelerated repayment of bond principal over a period of five to ten years. The specific terms relating to the rating levels that trigger the bank's termination right, and whether it is triggered by a downgrade by one rating agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction. See also Note 14 for a discussion of the impact of a downgrade in the financial strength rating on the Company's insured leveraged lease transactions.

6. Fair Value Measurement

The Company carries the majority of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on the market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third party using a discounted cash flow approach and the third party's proprietary pricing models. In addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company's credit exposure such as collateral rights.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company's creditworthiness, constraints on liquidity and unobservable parameters. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company continues to refine its methodologies. During Second Quarter 2011, no changes were made to the Company's valuation models that had or are expected to have a material impact on the Company's consolidated balance sheets or statements of operations and comprehensive income.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

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The Company's methods for calculating fair value produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels as follows, with level 1 being the highest and level 3 the lowest. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. All three hierarchies require the use of observable market data when available.

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels 1, 2 and 3 are recognized at the beginning of the period when the transfer occurs. The Company reviews quarterly the classification between levels 1, 2 and 3 to determine, based on the definitions provided, whether a transfer is necessary.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) (Topic 820: Fair Value Measurement). ASU 2011-04 develops common requirements for measuring fair value and for disclosing information about fair value measurements to improve the comparability of financial statements prepared in accordance with U.S. GAAP and IFRSs. ASU 2011-04 does not require additional fair value measurements and is not

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intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011, which corresponds to the Company's first quarter of fiscal year 2012. Early application by public entities is not permitted. Accordingly, the Company has not yet adopted this guidance and is evaluating the impact of this pronouncement.

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Amounts recorded at fair value in the Company's financial statements are included in the tables below.

Fair Value Hierarchy of Financial Instruments Carried at Fair Value**As of June 30, 2011**

	Fair Value	Level 1	Fair Value Hierarchy		Level 3
	(restated)	(restated)	(in millions)		(restated)
			Level 2		
Assets:					
Investment portfolio, available-for-sale:					
Fixed maturity securities					
U.S. government and agencies	\$ 975.3	\$	\$ 975.3	\$	
Obligations of state and political subdivisions	5,184.2		5,184.2		
Corporate securities	1,065.5		1,065.5		
Mortgage-backed securities:					
RMBS	1,217.5		1,129.5		88.0
Commercial Mortgage-Backed Securities (CMBS)	516.1		516.1		
Asset-backed securities	560.9		287.0		273.9
Foreign government securities	344.7		344.7		
Total fixed maturity securities	9,864.2		9,502.3		361.9
Short-term investments	1,105.6	164.8	940.8		
Other invested assets(1)	37.9	0.4	25.5		12.0
Credit derivative assets	603.9				603.9
FG VIEs assets, at fair value	3,492.2				3,492.2
Other assets	49.3	29.5	19.8		
Total assets carried at fair value	\$ 15,153.1	\$ 194.7	\$ 10,488.4	\$	\$ 4,470.0
Liabilities:					
Credit derivative liabilities	\$ 2,791.4	\$	\$	\$	2,791.4
FG VIEs liabilities with recourse, at fair value	2,848.9				2,848.9
FG VIEs liabilities without recourse, at fair value	1,282.5				1,282.5
Total liabilities carried at fair value	\$ 6,922.8	\$	\$	\$	\$ 6,922.8

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of December 31, 2010

	Fair Value	Level 1	Fair Value Hierarchy		Level 3
	(restated)	(restated)	(in millions)		(restated)
			Level 2		
Assets:					
Investment portfolio, available-for-sale:					
Fixed maturity securities					
U.S. government and agencies	\$ 1,048.2	\$	\$ 1,048.2	\$	
Obligations of state and political subdivisions	4,959.9		4,959.9		
Corporate securities	992.5		992.5		
Mortgage-backed securities:					
RMBS	1,171.1		1,071.7		99.4
CMBS	379.1		379.1		
Asset-backed securities	502.9		292.7		210.2
Foreign government securities	348.6		348.6		
Total fixed maturity securities	9,402.3		9,092.7		309.6
Short-term investments	1,055.6	277.4	778.2		
Other invested assets(1)	33.3	0.2	21.4		11.7
Credit derivative assets	592.9				592.9
FG VIEs assets, at fair value	3,657.5				3,657.5
Other assets	44.4	25.7	18.7		
Total assets carried at fair value	\$ 14,786.0	\$ 303.3	\$ 9,911.0	\$	\$ 4,571.7
Liabilities:					
Credit derivative liabilities	\$ 2,462.8	\$	\$	\$	2,462.8
FG VIEs liabilities with recourse, at fair value	3,030.9				3,030.9
FG VIEs liabilities without recourse, at fair value	1,337.2				1,337.2
Other liabilities	0.1		0.1		
Total liabilities carried at fair value	\$ 6,831.0	\$	\$ 0.1	\$	\$ 6,830.9

(1) Includes mortgage loans that are recorded at fair value on a non-recurring basis. At June 30, 2011 and December 31, 2010, such investments were carried at their market value of \$10.0 million and \$9.4 million, respectively. The mortgage loans are classified as Level 3 of the fair value hierarchy as there are significant unobservable inputs used in the valuation of such loans. An indicative dealer quote is used to price the non-performing portion of these mortgage loans. The performing loans are valued using management's determination of future cash flows arising from these loans, discounted at the rate of return that would be required by a market participant. This rate of return is based on indicative dealer quotes.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of financial instruments whose fair value included significant unobservable inputs (Level 3).

Fair Value Level 3 Roll Forward

Recurring Basis

	Fixed Maturity Securities		Other Invested Assets	Second Quarter 2011 Credit Derivative		FG VIEs Liabilities with Recourse, at Fair Value	FG VIEs Liabilities without Recourse, at Fair Value
	RMBS	Asset- Backed Securities		FG VIEs Assets at Fair Value	Asset (Liability), net(5)		
	(restated)			(in millions)	(restated)	(restated)	
Fair value at March 31, 2011	\$ 210.1	\$ 232.1	\$ 2.2	\$ 3,679.0	\$ (2,140.0)	\$ (2,874.2)	\$ (1,373.0)
Total pretax realized and unrealized gains/(losses) recorded in(1)							
Net income (loss)	(35.2)(2)	2.1(2)		(211.6)(3)	(64.8)(6)	14.9(3)	86.5(3)
Other comprehensive income (loss)	(16.9)	(7.3)	(0.2)				
Purchases	1.6	47.1					
Issuances							
Sales	(8.0)	(0.1)					
Settlements				(257.6)	17.3	282.8	67.1
FG VIE consolidations	(63.6)			282.4		(272.4)	(63.1)
Fair value at June 30, 2011	\$ 88.0	\$ 273.9	\$ 2.0	\$ 3,492.2	\$ (2,187.5)	\$ (2,848.9)	\$ (1,282.5)
Change in unrealized gains/(losses) related to financial instruments held at June 30, 2011	\$ (16.9)	\$ (7.3)	\$ (0.2)	\$ (84.7)	\$ (28.9)	\$ (7.1)	\$ 52.9

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	Second Quarter 2010						
	Fixed Maturity Securities RMBS	Asset-Backed Securities	Other Invested Assets	FG VIEs Assets at Fair Value (in millions)	Credit Derivative Asset (Liability), net(5)	FG VIEs Liabilities with Recourse, at Fair Value (restated)	FG VIEs Liabilities without Recourse, at Fair Value
Fair value at March 31, 2010	\$ 79.3	\$ 222.7	\$ 4.4	\$ 1,868.6	\$ (1,284.9)	\$ (2,085.2)	\$ (205.7)
Total pretax realized and unrealized gains/(losses) recorded in(1)							
Net income (loss)	5.2(2)	(14.6)(2)	(0.1)(4)	(19.1)(3)	73.5(6)	21.9(3)	(2.4)(3)
Other comprehensive income (loss)	(41.4)	8.5	(0.2)				
Purchases, issuances, sales, settlements, net	51.1	13.7	(1.5)	(53.6)	(63.5)	27.3	23.2
Consolidations, Deconsolidations, net				48.8		(71.5)	
Transfers in and/or out of Level 3(7)	8.7						
Fair value at June 30, 2010	\$ 102.9	\$ 230.3	\$ 2.6	\$ 1,844.7	\$ (1,274.9)	\$ (2,107.5)	\$ (184.9)
Change in unrealized gains/(losses) related to financial instruments held at June 30, 2010	\$ (41.4)	\$ 8.5	\$	\$ 36.1	\$ 36.7	\$ (131.0)	\$ 5.3

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	Six Months 2011						
	Fixed Maturity Securities	Asset-Backed Securities	Other Invested Assets	FG VIEs Assets at Fair Value	Credit Derivative Asset (Liability), net(5)	FG VIEs Liabilities with Recourse, at Fair Value	FG VIEs Liabilities without Recourse, at Fair Value
	RMBS						
	(restated)			(in millions)	(restated)	(restated)	
Fair value at December 31, 2010	\$ 99.4	\$ 210.2	\$ 2.3	\$ 3,657.5	\$ (1,869.9)	\$ (3,030.9)	\$ (1,337.2)
Total pretax realized and unrealized gains/(losses) recorded in(1):							
Net income (loss)	(31.3)(2)	3.7(2)		22.8(3)	(301.0)(6)	3.8(3)	(49.0)(3)
Other comprehensive income (loss)	(47.7)	13.0	(0.3)				
Purchases	152.2	47.1					
Sales	(21.0)	(0.1)					
Settlements				(470.5)	(16.6)	450.6	166.8
FG VIE Consolidations	(63.6)			282.4		(272.4)	(63.1)
Fair value at June 30, 2011	\$ 88.0	\$ 273.9	\$ 2.0	\$ 3,492.2	(2,187.5)	\$ (2,848.9)	\$ (1,282.5)
Change in unrealized gains/(losses) related to financial instruments held at June 30, 2011	\$ (47.7)	\$ 13.0	\$ (0.3)	\$ 263.6	\$ (311.7)	\$ (43.0)	\$ (119.1)

	Six Months 2010						
	Fixed Maturity Securities	Asset-Backed Securities	Other Invested Assets	FG VIEs Assets at Fair Value	Credit Derivative Asset (Liability), net(5)	FG VIEs Liabilities with Recourse, at Fair Value	FG VIEs Liabilities without Recourse, at Fair Value
	RMBS						
				(in millions)		(restated)	
Fair value at December 31, 2009	\$	\$ 203.9	\$ 0.2	\$	\$ (1,542.1)	\$	\$
Adoption of new accounting standard				1,925.3		(2,110.9)	(226.0)
Fair value at January 1, 2010		203.9	0.2	1,925.3	(1,542.1)	(2,110.9)	(226.0)
Total pretax realized and unrealized gains/(losses) recorded in(1):							
Net income (loss)	5.6(2)	(15.2)(2)	(0.2)	(14.9)(3)	352.3(6)	12.3(3)	(7.5)(3)
	(59.6)	9.1					

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Other comprehensive income (loss)									
Purchases, issuances, sales, settlements, net Consolidations, Deconsolidations, net Transfers in and/or out of Level 3(7)	93.1	13.7	2.6	(114.5)	(85.1)	62.6	48.6		
Fair value at June 30, 2010	\$ 102.9	\$ 230.3	\$ 2.6	\$ 1,844.7	\$ (1,274.9)	\$ (2,107.5)	\$ (184.9)		
Change in unrealized gains/(losses) related to financial instruments held at June 30, 2010	\$ (59.6)	\$ 9.1	\$	\$ 96.5	\$ 294.6	\$ (185.8)	\$ 1.9		

(1) Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains (losses) from changes in values of those financial instruments only for the periods in which the instruments were classified as Level 3.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

- (2) Included in net realized investment gains (losses) and net investment income.
- (3) Included in net change in fair value of FG VIEs.
- (4) Recorded in other income.
- (5) Represents net position of credit derivatives. The consolidated balance sheet presents gross assets and liabilities based on net counterparty exposure.
- (6) Reported in net change in fair value of credit derivatives.
- (7) After analyzing prices provided by a third party pricing service, the Company determined it was necessary to reduce the pricing on one security based on the Company's own cash flow analysis which was deemed a level 3.

The carrying amount and estimated fair value of financial instruments are presented in the following table:

Fair Value of Financial Instruments

As of June 30, 2011		As of December 31, 2010	
Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(in millions)			

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	(restated)	(restated)	(restated)	(restated)
Assets:				
Fixed maturity securities	\$ 9,864.2	\$ 9,864.2	\$ 9,402.3	\$ 9,402.3
Short-term investments	1,105.6	1,105.6	1,055.6	1,055.6
Other invested assets	252.8	263.6	259.8	269.7
Credit derivative assets	603.9	603.9	592.9	592.9
FG VIE s assets, at fair value	3,492.2	3,492.2	3,657.5	3,657.5
Other assets	49.3	49.3	44.4	44.4
Liabilities:				
Financial guaranty insurance contracts(1)	4,843.4	4,027.0	4,777.6	5,582.8
Long-term debt(2)	1,046.4	1,163.9	1,052.9	1,074.5
Credit derivative liabilities	2,791.4	2,791.4	2,462.8	2,462.8
FG VIEs liabilities with recourse, at fair value	2,848.9	2,848.9	3,030.9	3,030.9
FG VIEs liabilities without recourse, at fair value	1,282.5	1,282.5	1,337.2	1,337.2

(1) Carrying amount includes the balance sheet amounts related to financial guaranty insurance contract premiums and losses, net of reinsurance. Fair value measurement is Level 3 in the fair value hierarchy

(2) Carrying amount represented principal less accumulated discount or plus accumulated premium. Fair value measurement is Level 2 and Level 3 in the fair value hierarchy.

7. Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company has a portfolio of financial guaranty contracts accounted for as derivatives (primarily CDS) that meet the definition of a derivative in accordance with GAAP. Until the Company ceased selling credit protection through credit derivative contracts in the beginning of 2009, following the issuance of regulatory guidelines that limited the terms under which the credit protection could be sold, management considered these agreements to be a normal part of its financial guaranty business. The potential capital or margin requirements that may apply under the Dodd-Frank Wall Street Reform and Consumer Protection Act contributed to the decision of the Company not to sell new credit protection through CDS in the foreseeable future.

Credit derivative transactions are governed by ISDA documentation and have some different characteristics from financial guaranty insurance contracts. For example, the Company's control rights with respect to a reference obligation under a credit derivative may be more limited than when the Company issues a financial guaranty insurance contract. In addition, while the Company's exposure under credit derivatives, like the Company's exposure under financial guaranty insurance contracts, has been generally for as long as the reference obligation remains outstanding, unlike financial guaranty

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contracts, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events. A loss payment is made only upon the occurrence of one or more defined credit events with respect to the referenced securities or loans. A credit event may be a non-payment event such as a failure to pay, bankruptcy or restructuring, as negotiated by the parties to the credit derivative transactions. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. The Company may be required to make a termination payment to its swap counterparty upon such termination. The Company may not unilaterally terminate a CDS contract; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. See Net Change in Fair Value of Credit Derivatives.

Credit Derivative Net Par Outstanding by Sector

The estimated remaining weighted average life of credit derivatives was 4.6 years at June 30, 2011 and 4.9 years at December 31, 2010. The components of the Company's credit derivative net par outstanding are presented below.

Credit Derivatives Net Par Outstanding

Asset Type	As of June 30, 2011				As of December 31, 2010			
	Net Par Outstanding	Original Subordination (1)	Current Subordination (1)	Weighted Average Credit Rating	Net Par Outstanding	Original Subordination (1)	Current Subordination (1)	Weighted Average Credit Rating
Pooled corporate obligations:								
Collateralized loan obligations/Collateralized bond obligations	\$ 41,006	32.5%	31.7%	AAA	\$ 45,953	32.2%	30.4%	AAA
Synthetic investment grade pooled corporate	14,496	19.4	17.8	AAA	14,905	19.2	17.6	AAA
Synthetic high-yield pooled corporate	7,534	34.7	30.3	AA-	8,249	39.4	34.6	AA+
Trust preferred securities collateralized debt obligations	4,784	46.6	31.6	BB+	5,757	46.8	32.0	BB+
	4,659	33.8	40.8	AAA	5,069	36.0	42.9	AAA

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Market value collateralized
debt obligations of
corporate obligations

Total pooled corporate obligations	72,479	31.1	29.3	AAA	79,933	31.7	29.3	AAA
U.S. RMBS:								
Option ARM and Alt-A first lien	4,419	19.6	15.1	B+	4,767	19.7	17.0	B+
Subprime first lien (including net interest margin)	4,230	30.0	53.9	A+	4,460	27.9	50.4	A+
Prime first lien	429	10.9	9.5	B	468	10.9	10.3	B
Closed-end second lien and HELOCs(2)	69			B	81			B
Total U.S. RMBS	9,147	23.9	32.6	BBB-	9,776	23.1	32.4	BBB-
CMBS	4,517	33.8	39.4	AAA	6,751	29.8	31.3	AAA
Other	11,862			A	13,311			A+
Total	\$ 98,005			AA+	\$ 109,771			AA+

(1) Represents the sum of subordinate tranches and overcollateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

(2) Many of the closed-end second lien transactions insured by the Company have unique structures whereby the collateral may be written down for losses without a corresponding write-down of the obligations insured by the Company. Many of these transactions are currently undercollateralized, with the principal amount of collateral being less than the principal amount of the obligation insured by the Company. The Company is not required to pay principal shortfalls until legal maturity (rather than making timely principal payments), and takes the undercollateralization into account when estimating expected losses for these transactions.

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AA		6,392		6.5		8,138		7.4
A		6,506		6.6		7,405		6.7
BBB		5,276		5.4		6,312		5.8
BIG		8,436		8.6		8,358		7.7
Total credit derivative net par outstanding	\$	98,005		100.0%	\$	109,771		100.0%

The following tables present details about the Company's U.S. RMBS CDS by vintage.

U.S. Residential Mortgage-Backed Securities

Vintage	June 30, 2011				Weighted Average Credit Internal Rating	Net Change in Unrealized Gain (Loss)	
	Net Par Outstanding (in millions)	Original Subordination(1)	Current Subordination(1)			Second Quarter	Six Months
						2011 (in millions) (restated)	2011 (restated)
2004 and Prior	\$ 155	6.2%	19.3%	A-	\$ 0.3	\$ (3.0)	
2005	2,709	30.3	64.0	AA	1.9	(17.2)	
2006	1,693	29.1	35.4	BBB+	(60.3)	(101.0)	
2007	4,590	18.6	12.7	B	7.0	(220.7)	
Total	\$ 9,147	23.9%	32.6%	BBB-	\$ (51.1)	\$ (341.9)	

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

(1) Represents the sum of subordinate tranches and overcollateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

The following table presents additional details about the Company's CMBS transactions by vintage:

Commercial Mortgage-Backed Securities

Vintage	June 30, 2011				Weighted Average Credit Internal Rating	Net Change in Unrealized Gain (Loss)	
	Net Par Outstanding (in millions)	Original Subordination(1)	Current Subordination(1)			Second Quarter 2011 (in millions)	Six Months 2011
2004 and Prior	\$ 241	29.6%	56.8%	AAA	\$ (0.1)	\$ (0.2)	
2005	677	17.8	26.4	AAA			
2006	2,184	33.5	38.7	AAA	10.3	10.9	
2007	1,415	42.6	43.6	AAA	(0.4)	(0.2)	
Total	\$ 4,517	33.8%	39.4%	AAA	\$ 9.8	\$ 10.5	

(1) Represents the sum of subordinate tranches and overcollateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

Net Change in Fair Value of Credit Derivatives

The following table disaggregates the components of net change in fair value of credit derivatives.

Net Change in Fair Value of Credit Derivatives Gain (Loss)

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(restated)		(restated)	
	(in millions)			
Net credit derivative premiums received and receivable	\$ 47.6	\$ 50.7	\$ 107.2	\$ 104.4
Net ceding commissions (paid and payable) received and receivable	0.8	1.1	2.2	2.1
Realized gains on credit derivatives	48.4	51.8	109.4	106.5
Termination losses	(22.5)		(22.5)	
Net credit derivative losses (paid and payable) recovered and recoverable	(36.7)	(13.4)	(62.3)	(41.4)
Total realized gains and other settlements on credit derivatives	(10.8)	38.4	24.6	65.1
Net unrealized gains (losses) on credit derivatives	(54.0)	35.1	(325.6)	287.2
Net change in fair value of credit derivatives	\$ (64.8)	\$ 73.5	\$ (301.0)	\$ 352.3

In Second Quarter 2011 and Six Months 2011, CDS contracts totaling \$5.2 billion and \$7.7 billion, respectively, in net par were terminated. The Company received \$6.1 million and \$21.6 million in Second Quarter 2011 and Six Months 2011, respectively, which represent the acceleration of future premium revenues for the terminated CDS and are included in the table above in the net credit derivative premiums received and receivable line item. In addition, the Company paid \$22.5 million to terminate several CMBS CDS transactions which carried high rating agency capital charges. Changes in the fair value of credit derivatives occur primarily because of changes in interest rates, credit spreads, credit ratings of the referenced entities, realized gains and other settlements, and the issuing company's own credit rating, credit spreads and other market factors. Except for estimated credit impairments (i.e., net expected payments), the unrealized gains and losses on credit derivatives is expected to reduce to zero as the exposure approaches its maturity date. During Second Quarter 2011 and 2010, the Company made \$30.2 million and \$13.0 million in claim payments on credit derivatives, respectively. During Six Months 2011 and 2010, the Company made \$43.2 million and \$41.0 million in claim payments on credit derivatives, respectively. With considerable volatility continuing in the market, unrealized gains (losses) on credit derivatives may fluctuate significantly in future periods.

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Net Unrealized Gains (Losses) on Credit Derivatives

By Sector

Asset Type	Second Quarter		Six Months	
	2011	2010	2011	2010
			(in millions)	
	(restated)		(restated)	
Pooled corporate obligations:				
CLOs/Collateralized bond obligations	\$ (3.6)	\$ 1.8	\$ (1.6)	\$ 3.3
Synthetic investment grade pooled corporate	(0.8)	3.6	9.7	(4.0)
Synthetic high-yield pooled corporate	3.5	(5.9)	0.7	14.5
TruPS CDOs	(15.5)	35.5	(36.3)	65.2
Market value CDOs of corporate obligations	(5.2)	(0.1)	(5.3)	0.3
Total pooled corporate obligations	(21.6)	34.9	(32.8)	79.3
U.S. RMBS:				
Option ARM and Alt-A first lien	28.1	9.6	(239.5)	160.5
Subprime first lien (including net interest margin)	(67.2)	0.3	(91.3)	0.9
Prime first lien	(12.8)	5.2	(12.2)	19.4
Closed-end second lien and HELOCs	0.8	(14.3)	1.1	(5.9)
Total U.S. RMBS	(51.1)	0.8	(341.9)	174.9
CMBS	9.8	0.3	10.5	9.8
Other(1)	8.9	(0.9)	38.6	23.2
Total	\$ (54.0)	\$ 35.1	\$ (325.6)	\$ 287.2

(1) Other includes all other U.S. and international asset classes, such as commercial receivables, international infrastructure, international RMBS securities and pooled infrastructure securities.

Components of Credit Derivative Assets (Liabilities)

	As of June 30, 2011	As of December 31, 2010
	(in millions)	
	(restated)	(restated)
Credit derivative assets	\$ 603.9	\$ 592.9

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Credit derivative liabilities		(2,791.4)		(2,462.8)
Net fair value of credit derivatives	\$	(2,187.5)	\$	(1,869.9)

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Net Fair Value and Expected Losses of Credit Derivatives by Sector

As of June 30, 2011

Asset Type	Credit Derivative Asset (Liability), net (restated)	(in millions)	Present Value of Expected Claim (Payments) Recoveries(2)
Pooled corporate obligations:			
CLOs/ Collateralized bond obligations	\$	(12.0)	\$
Synthetic investment grade pooled corporate		(29.8)	
Synthetic high-yield pooled corporate		(14.3)	(5.5)
TruPS CDOs		(62.1)	(56.7)
Market value CDOs of corporate obligations		(1.9)	
Total pooled corporate obligations		(120.1)	(62.2)
U.S. RMBS:			
Option ARM and Alt-A first lien		(1,162.1)	(263.5)
Subprime first lien (including net interest margin)		(111.6)	(124.5)
Prime first lien		(103.4)	
Closed-end second lien and HELOCs		(24.3)	4.6
Total U.S. RMBS		(1,401.4)	(383.4)
CMBS		(4.5)	
Other(1)		(661.5)	(91.6)
Total	\$	(2,187.5)	\$ (537.2)

(1) Other includes all other U.S. and international asset classes, such as commercial receivables, international infrastructure, international RMBS securities and pooled infrastructure securities.

(2) Represents amount in excess of the present value of future installment fees to be received of \$63.8 million.

One of the key assumptions of the Company's internally developed model is gross spread and how that gross spread is allocated.

Gross spread is the difference between the yield of a security paid by an issuer on an insured versus uninsured basis or, in the case of a CDS transaction, the difference between the yield and an index such as the London Interbank Offered Rate (LIBOR). Such pricing is well established by historical financial guaranty fees relative to capital market spreads as observed and executed in competitive markets, including in financial guaranty reinsurance and secondary market transactions. Gross spread on a financial guaranty accounted for as CDS is allocated among:

1. the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction (bank profit);
2. premiums paid to the Company for the Company s credit protection provided (net spread); and
3. the cost of CDS protection purchased on the Company by the originator to hedge their counterparty credit risk exposure to the Company (hedge cost).

The premium the Company receives is referred to as the net spread. The Company s own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market prices on CDS referencing AGC or AGM. The cost to acquire CDS protection referencing AGC or AGM affects the amount of spread on CDS deals that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGC or AGM increases, the amount of premium the Company retains on a deal generally decreases. As the cost to acquire CDS protection referencing AGC or AGM decreases, the amount of premium the Company retains on a deal generally increases. In the Company s valuation model, the premium the Company captures is not permitted to go below the minimum rate that the Company would currently charge to assume similar risks. This assumption can have the effect of mitigating the amount of unrealized gains that are recognized on certain CDS contracts.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

The Company determines the fair value of its CDS contracts by applying the difference between the current net spread and the contractual net spread for the remaining duration of each contract to the notional value of its CDS contracts.

The Company's fair value model inputs are gross spread, credit spreads on risks assumed and credit spreads on the Company's name. Gross spread is an input into the Company's fair value model that is used to ultimately determine the net spread a comparable financial guarantor would charge the Company to transfer risk at the reporting date. The Company's estimate of the fair value represents the difference between the estimated present value of premiums that a comparable financial guarantor would accept to assume the risk from the Company on the current reporting date, on terms identical to the original contracts written by the Company and the contractual premium for each individual credit derivative contract. Gross spread was an observable input that the Company historically obtained for deals it had closed or bid on in the market place prior to the credit crisis. The Company uses these historical gross spreads as a reference point to estimate fair value in current reporting periods.

The Company's model does not permit the premium to go below the minimum amount the Company would currently charge to assume similar risks. Given the current market conditions and the Company's own credit spreads, the fair value of the Company's CDS contracts are calculated using this minimum premium.

In Second Quarter 2011, U.S. RMBS unrealized fair value losses were generated primarily in the prime first lien and subprime RMBS sectors due to wider implied net spreads. The wider implied net spreads were a result of price deterioration as well as the decreased cost to buy protection in AGC's name as the market cost of AGC's credit protection declined. These transactions were pricing above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC, which management refers to as the CDS spread on AGC, declined the implied spreads that the Company would expect to receive on these transactions increased. The unrealized fair value gains in the Option ARM and Alt-A first lien sectors, were a result of an increase in fair value attributable to R&W benefits on several Alt-A first lien and Option ARM credit derivative transactions, as a result of a recent settlement with a CDS counterparty. The unrealized fair value gains in the Alt-A first lien and Option ARM sectors were partially offset by wider implied net spreads on these transactions, which resulted from the decreased cost to buy protection in AGC's name. The cost of AGM's credit protection also declined during the quarter, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates and other market conditions at the time these fair values are determined. In addition, since each transaction has unique collateral and structural terms, the underlying change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts also reflects the change in the Company's own credit cost based on the price to purchase credit protection on AGC and AGM. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date. Generally, a widening of the CDS prices traded on AGC and AGM has an effect of offsetting

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unrealized losses that result from widening general market credit spreads, while a narrowing of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized gains that result from narrowing general market credit spreads. An overall narrowing of spreads generally results in an unrealized gain on credit derivatives for the Company and an overall widening of spreads generally results in an unrealized loss for the Company.

Effect of the Company's Credit Spread on Credit Derivatives Fair Value

	As of June 30, 2011 (restated)	As of March 31, 2011 (restated)	As of December 31, 2010 (restated) (dollars in millions)	As of June 30, 2010	As of March 31, 2010	As of December 31, 2009
Quoted price of CDS contract (in basis points):						
AGC	634	724	804	1,010	734	634
AGM	472	660	650	802	468	541
Fair value of asset/ (liability) of credit derivatives:						
Before considering implication of the Company's credit spreads	\$ (5,428.9)	\$ (5,578.8)	\$ (5,539.3)	\$ (5,636.3)	\$ (5,253.5)	\$ (5,830.8)
After considering implication of the Company's credit spreads	\$ (2,187.5)	\$ (2,140.0)	\$ (1,869.9)	\$ (1,274.9)	\$ (1,284.9)	\$ (1,542.1)

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The fair value of CDS contracts at June 30, 2011, before considering the implications of AGC's and AGM's credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets, and ratings downgrades. The asset classes that remain most affected are recent vintages of subprime RMBS and Alt-A first lien deals, as well as trust-preferred securities. When looking at June 30, 2011 compared with December 31, 2010, there was widening of spreads relating to the Company's Alt-A first lien and subprime RMBS transactions, which was substantially offset by a narrowing of spreads in the Company's pooled corporate obligation asset classes as well as for policies guaranteeing XXX life securitization transactions included in the Company's Other asset class. The gain of approximately \$102.5 million, before taking into account AGC's or AGM's credit spreads, was primarily a result of the Company factoring in the fair value of R&W benefits, as they relate to the Company's CDS contracts. The fair value of these benefits increased significantly over the period as a result of the Company's recent agreement with a CDS counterparty.

Management believes that the trading level of AGC's and AGM's credit spreads are due to the correlation between AGC's and AGM's risk profile and the current risk profile of the broader financial markets and to increased demand for credit protection against AGC and AGM as the result of its financial guaranty volume, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC's and AGM's credit spread were declines in fixed income security market prices primarily attributable to widening spreads in certain markets as a result of the continued deterioration in credit markets and some credit rating downgrades. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high-yield CDO and CLO markets as well as continuing market concerns over the most recent vintages of subprime RMBS.

Ratings Sensitivities of Credit Derivative Contracts

AGC has \$2.7 billion in CDS par insured that have rating triggers that allow the CDS counterparty to terminate in the case of a rating downgrade of AGC. If the ratings of AGC were reduced below certain levels and the Company's counterparty elected to terminate the CDS, the Company could be required to make a termination payment on certain of its credit derivative contracts, as determined under the relevant documentation. Under certain documents, the Company may have the right to cure the termination event by posting collateral, assigning its rights and obligations in respect of the transactions to a third party or seeking a third party guaranty of the obligations of the Company. The Company currently has three ISDA master agreements under which the applicable counterparty could elect to terminate transactions upon a rating downgrade of AGC. If AGC's ratings were downgraded to BBB- or Baa3, \$89 million in par insured could be terminated by one counterparty; and if AGC's ratings were downgraded to BB+ or Ba1, approximately \$2.6 billion in par insured could be terminated by the other two counterparties. The Company does not believe that it can accurately estimate the termination payments it could be required to make if, as a result of any such downgrade, a CDS counterparty terminated its CDS contracts with the Company. These payments could have a material adverse effect on the Company's liquidity and financial condition.

Under a limited number of other CDS contracts, the Company may be required to post eligible securities as collateral generally cash or U.S. government or agency securities. For certain of such contracts, this requirement is based on a mark-to-market valuation, as determined under the relevant documentation, in excess of contractual thresholds that decline or are eliminated if the ratings of certain of the Company's insurance subsidiaries decline. Under other contracts, the Company has negotiated caps such that the posting requirement cannot exceed a certain amount. As of June 30, 2011, and without giving effect to thresholds that apply at current ratings, the amount of par that is subject to collateral posting is approximately \$15.8 billion, for which the Company has agreed to post approximately \$768.6 million of collateral. The Company may be required to post additional collateral from time to time, depending on its ratings and on the market values of the transactions subject to the collateral posting. Counterparties have agreed that for approximately \$15.2 billion of that \$15.8 billion, the maximum amount that the Company could be required to post is capped at \$635 million at current rating levels (which amount is included in the \$768.6 million that the Company has agreed to post). Such cap increases by \$50 million to \$685 million in the event AGC's ratings are downgraded to A+ or A3.

8. Consolidation of Variable Interest Entities

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. The Company has not originated any VIEs nor acted as the servicer or collateral manager for any VIE deals that it insures. The transaction structure generally provides certain financial protections to the Company. This financial protection can take several forms, the most common of which are overcollateralization, first-loss protection (or subordination) and excess spread. In the case of overcollateralization (i.e., the principal amount of the securitized assets exceeds the principal amount of the structured finance obligations guaranteed by the Company), the structure allows defaults of the securitized assets before a default is experienced on the structured finance obligation guaranteed by the Company. In the case of first

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June 30, 2011

loss, the financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by special purpose entities, including VIEs. The first-loss exposure with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the financial assets contributed to special purpose entities, including VIEs, generate cash flows that are in excess of the interest payments on the debt issued by the special purpose entity. Such excess spread is typically distributed through the transaction's cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the special purpose entities, including VIEs (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

AGM and AGC are not primarily liable for the debt obligations issued by the FG VIEs it insures and would only be required to make payments on these debt obligations that it has insured in the event that the issuer of such debt obligations defaults on any principal or interest due. AGL's and its Subsidiaries' creditors do not have any rights with regard to the assets of the VIEs. Fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the VIE debt, except for claim payments paid by AGC or AGM under the financial guaranty insurance contract. The Company's estimate of expected loss to be paid for FG VIEs is included in Note 5.

During Second Quarter 2011, the Company determined that, based on the assessment of its control rights over servicer or collateral manager replacement, given that servicing/managing collateral were deemed to be the FG VIEs' most significant activities, eight additional VIEs required consolidation, bringing the total consolidated VIEs to 35 at June 30, 2011. This resulted in an increase in FG VIEs' assets of \$254.8 million, an increase in FG VIEs' liabilities of \$305.2 million and a net loss on consolidation of \$95.3 million, which was included in net change in fair value of FG VIEs in the consolidated statement of operations. In addition, debt on two FG VIEs was fully paid off during Second Quarter 2011.

The total unpaid principal balance for the FG VIEs' assets that were 90 days or more past due was approximately \$1,245.4 million and \$1,199.1 million as of June 30, 2011 and December 31, 2010, respectively. The change in the instrument-specific credit risk of the FG VIEs' assets for the Second Quarter 2011 and 2010 and Six Months 2011 and 2010 were losses of \$861.9 million, \$44.1 million, \$478.7 million and \$95.4 million, respectively. The difference between the aggregate unpaid principal and aggregate fair value of the FG VIEs' liabilities was approximately \$2,663.8 million and \$2,053.0 million at June 30, 2011 and December 31, 2010, respectively.

The financial reports of the consolidated FG VIEs are prepared by outside parties and are not available within the time constraints that the Company requires to ensure the financial accuracy of the operating results. As such, the financial results of the FG VIEs are consolidated on a one-quarter lag; however, the Company does adjust the financial statements for the effects of material events occurring from the lag period until the balance sheet date. The Company has elected the fair value option for assets and liabilities classified as FG VIEs' assets and liabilities. Upon consolidation of FG VIEs, the Company elected the fair value option because the carrying amount transition method was not practical.

Consolidated FG VIEs

By Type of Collateral

	As of June 30, 2011		As of December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
	(restated)		(restated)	
HELOCs	\$ 780.4	\$ 1,092.1	\$ 857.1	\$ 1,126.1
First liens:				
Alt-A	173.6	165.4		
Subprime	466.2	555.6	528.7	616.5
Option ARM	651.1	850.9	626.6	909.4
Alt-A second liens	760.6	807.1	747.4	818.4
Automobile loans	333.3	333.3	486.8	486.8
Life insurance	327.0	327.0	304.8	304.8
Credit card loans			106.1	106.1
Total	\$ 3,492.2	\$ 4,131.4	\$ 3,657.5	\$ 4,368.1

The table below shows the income statement impact of the consolidated FG VIEs:

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

**Effect of Consolidating FG VIEs on Net Income
and Shareholders' Equity**

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
	(restated)	(restated)	(restated)	(restated)
Net earned premiums	\$ (18.3)	\$ (10.7)	\$ (37.4)	\$ (21.6)
Net investment income	(0.4)		(0.7)	
Net realized investment gains (losses)	0.2		0.5	
Net change in fair value of financial guaranty variable interest entities	(174.3)	(27.4)	(54.7)	(36.3)
Loss and loss adjustment expenses	16.9	10.1	67.6	34.2
Total pretax effect on net income	(175.9)	(28.0)	(24.7)	(23.7)
Less: tax provision (benefit)	(61.6)	(9.8)	(8.6)	(8.3)
Total effect on net income	(114.3)	\$ (18.2)	(16.1)	\$ (15.4)

	As of	As of
	June 30, 2011	December 31, 2010
	(in millions)	
	(restated)	(restated)
Total effect on shareholders' equity	\$ (342.6)	\$ (371.4)

(1) Includes the effect of initially consolidating and/or deconsolidating VIEs based on changes in AGM's and AGC's assessment of its control rights over servicer or collateral manager replacement during the period.

The table below summarizes the contractual obligations, of the consolidated FG VIEs' liabilities with recourse.

Contractual Maturity Schedule of FG VIE Liabilities with Recourse

Gross Par Outstanding

Contractual Maturity	As of June 30, 2011 (in millions)
2012	\$ 15.8
2013	25.4
2014	199.6
2015	
Thereafter	3,907.4
Total	\$ 4,148.2

Non-Consolidated VIEs

To date, the Company's analyses have indicated that it does not have a controlling financial interest in any other VIEs and, as a result, they are not consolidated in the consolidated financial statements. The Company's exposure provided through its financial guaranties with respect to debt obligations of special purpose entities is included within net par outstanding in Note 4.

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June 30, 2011

9. Investments

Fixed Maturity Securities and Short-Term Investments

Net Investment Income

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(restated)		(in millions)	
Income from fixed maturity securities	\$ 103.1	\$ 92.6	\$ 201.6	\$ 179.8
Income from short-term investments	0.3		0.6	(0.4)
Gross investment income	103.4	92.6	202.2	179.4
Investment expenses	(2.3)	(1.7)	(5.0)	(4.2)
Net investment income	\$ 101.1	\$ 90.9	\$ 197.2	\$ 175.2

Net investment income increased due to a shift to longer duration assets, higher income on loss mitigation bonds, and additional earnings on cash received under Bank of America Agreement. Accrued investment income was \$103.8 million and \$97.9 million as of June 30, 2011 and December 31, 2010, respectively.

Net Realized Investment Gains (Losses)

	Second Quarter		Six Months	
	2011	2010	2011	2010
			(in millions)	
Realized gains on investment portfolio	\$ 10.8	\$ 12.1	\$ 20.8	\$ 25.3
Realized losses on investment portfolio	(4.3)	(3.2)	(6.9)	(6.5)
Other-than-temporary impairment (OTTI):				
Intent to sell	(0.8)	(1.3)	(3.5)	(1.7)
Credit component of OTTI securities	(10.8)	(16.0)	(12.7)	(16.1)

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OTTI(1)		(11.6)		(17.3)		(16.2)		(17.8)
Net realized investment gains (losses)	\$	(5.1)	\$	(8.4)	\$	(2.3)	\$	1.0

(1) OTTI recorded in the consolidated statement of operations includes only the credit component of unrealized fair value adjustments of impaired securities. The full unrealized loss was \$26.8 million in Second Quarter 2011, \$17.4 million in Second Quarter 2010, \$33.8 million in Six Months 2011 and \$18.5 million in 2010 prior to impairment, as shown on the consolidated statement of operations.

The following table presents the roll forward of the credit losses of fixed maturity securities for which the Company has recognized OTTI and where the portion of the fair value adjustment related to other factors was recognized in other comprehensive income (OCI).

Roll Forward of Credit Losses in the Investment Portfolio

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
Balance, beginning of period	\$ 29.2	\$ 20.0	\$ 27.3	\$ 19.9
Additions for credit losses on securities for which an OTTI was not previously recognized	9.1		10.5	
Eliminations of securities issued by FG VIEs	(13.5)		(13.5)	
Reductions for securities sold during the period	(5.0)		(5.0)	
Additions for credit losses on securities for which an OTTI was previously recognized	1.8		2.3	0.1
Balance, end of period	\$ 21.6	\$ 20.0	\$ 21.6	\$ 20.0

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Fixed Maturity Securities and Short-Term Investments

by Security Type

Investments Category	Percent of Total(1)	Amortized Cost (restated)	As of June 30, 2011			Estimated Fair Value (restated)	AOCI Gain (Loss) on Securities with OTTI(2)	Weighted Average Credit Quality(3)
			Gross Unrealized Gains	Gross Unrealized Losses (dollars in millions) (restated)				
Fixed maturity securities:								
U.S. government and agencies	9%	\$ 926.1	\$ 49.4	\$ (0.2)	\$ 975.3	\$		AAA
Obligations of state and political subdivisions	47	5,038.7	162.3	(16.8)	5,184.2	1.8		AA
Corporate securities	10	1,045.7	28.7	(8.9)	1,065.5	(0.2)		AA-
Mortgage-backed securities(4):								
RMBS	11	1,208.8	59.9	(51.2)	1,217.5	(23.0)		AA+
CMBS	5	498.8	17.7	(0.4)	516.1	2.7		AAA
Asset-backed securities	5	540.4	26.0	(5.5)	560.9	19.6		BBB
Foreign government securities	3	337.6	8.1	(1.0)	344.7			AAA
Total fixed maturity securities	90	9,596.1	352.1	(84.0)	9,864.2	0.9		AA
Short-term investments	10	1,105.6			1,105.6			AAA
Total investment portfolio	100%	\$ 10,701.7	\$ 352.1	\$ (84.0)	\$ 10,969.8	\$ 0.9		AA

As of December 31, 2010

(restated)

Investments Category	Percent of Total(1)	Amortized Cost	As of December 31, 2010 (restated)			Estimated Fair Value	AOCI Gain (Loss) on Securities with OTTI(2)	Weighted Average Credit Quality(3)
			Gross Unrealized Gains	Gross Unrealized Losses (dollars in millions)				
Fixed maturity securities:								
U.S. government and agencies	10%	\$ 1,000.3	\$ 48.3	\$ (0.4)	\$ 1,048.2	\$		AAA
	48	4,922.0	99.9	(62.0)	4,959.9	(1.4)		AA

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Obligations of state and political subdivisions							
Corporate securities	9	980.1	25.2	(12.8)	992.5	0.2	AA-
Mortgage-backed securities(4):							
RMBS	11	1,158.9	56.5	(44.3)	1,171.1	(8.6)	AA
CMBS	4	365.7	14.8	(1.4)	379.1	2.5	AAA
Asset-backed securities	5	498.2	9.9	(5.2)	502.9	(4.1)	BBB+
Foreign government securities							
	3	349.5	5.3	(6.2)	348.6		AA+
Total fixed maturity securities	90	9,274.7	259.9	(132.3)	9,402.3	(11.4)	AA
Short-term investments	10	1,055.3	0.3		1,055.6		AAA
Total investment portfolio	100%	\$ 10,330.0	\$ 260.2	\$ (132.3)	\$ 10,457.9	\$ (11.4)	AA

(1) Based on amortized cost.

(2) Accumulated OCI (AOCI).

(3) Ratings in the tables above represent the lower of the Moody's and S&P classifications except for bonds purchased for loss mitigation or risk management strategies, which use internal ratings classifications. The Company's portfolio consists primarily of high-quality, liquid instruments.

(4) As of June 30, 2011 and December 31, 2010, respectively, approximately 63% and 64% of the Company's total mortgage-backed securities were government-agency obligations.

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The Company continues to receive sufficient information to value its investments and has not had to modify its valuation approach due to the current market conditions. As of June 30, 2011, amounts, net of tax, in AOCI included a net unrealized gain of \$2.9 million for securities for which the Company had recognized OTTI and a net unrealized gain of \$199.3 million for securities for which the Company had not recognized OTTI. As of December 31, 2010, amounts, net of tax, in AOCI included a net unrealized loss of \$5.6 million for securities for which the Company had recognized OTTI and a net unrealized gain of \$115.3 million for securities for which the Company had not recognized OTTI.

The Company's investment portfolio in tax-exempt and taxable municipal securities includes issuances by a wide number of municipal authorities across the U.S. and its territories. This is a high quality portfolio of municipal securities with an average rating of AA as of June 30, 2011 and December 31, 2010. Securities rated lower than A-/A3 by S&P or Moody's are not eligible to be purchased for the Company's portfolio. The Company reports the lowest of the rating agency ratings in its disclosures.

The following tables present the fair value of the Company's available-for-sale municipal bond portfolio as of June 30, 2011 and December 31, 2010 by state, excluding \$369.8 million and \$478.3 million of pre-refunded bonds, respectively. The credit ratings are based on the underlying ratings and do not include any benefit from bond insurance.

Fair Value of Available-for-Sale Municipal Bond Portfolio by State

State	As of June 30, 2011						Average Credit Rating
	State General Obligation	Local General Obligation	Revenue (in millions)	Fair Value	Amortized Cost		
Texas	\$ 73.0	\$ 331.6	\$ 284.1	\$ 688.7	\$ 670.1	AA	
New York	11.7	54.5	565.6	631.8	616.0	AA	
California	17.8	61.6	285.2	364.6	352.9	AA	
Florida	44.5	53.6	235.8	333.9	323.8	AA	
Illinois	15.6	90.8	200.3	306.7	300.9	AA	
Washington	63.0	37.8	105.4	206.2	201.1	AA	
Massachusetts	39.8	8.9	154.3	203.0	198.5	AA	
Arizona		7.2	154.7	161.9	158.8	AA	
Michigan		39.7	81.4	121.1	117.6	AA	
Georgia	19.5	38.7	61.6	119.8	119.5	AA	
All others	320.9	263.2	1,092.6	1,676.7	1,631.7	AA	
Total	\$ 605.8	\$ 987.6	\$ 3,221.0	\$ 4,814.4	\$ 4,690.9	AA	

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State	As of December 31, 2010						Average Credit Rating
	State General Obligation	Local General Obligation	Revenue	Fair Value	Amortized Cost		
	(in millions)						
Texas	\$ 76.8	\$ 294.4	\$ 251.9	\$ 623.1	\$ 620.7	AA	
New York	11.4	40.0	496.2	547.6	545.1	AA	
California	17.2	56.0	330.2	403.4	401.0	AA	
Florida	45.2	45.1	213.6	303.9	300.5	AA	
Illinois	10.5	91.0	195.6	297.1	300.9	AA	
Washington	80.0	37.2	89.2	206.4	204.6	AA	
Massachusetts	38.0	8.6	137.3	183.9	185.8	AA	
Arizona		0.6	144.5	145.1	145.5	AA	
Michigan		39.5	93.1	132.6	131.4	A	
Georgia	19.3	38.4	67.1	124.8	125.4	AA	
All others	220.8	220.8	1,072.1	1,513.7	1,504.4	AA	
Total	\$ 519.2	\$ 871.6	\$ 3,090.8	\$ 4,481.6	\$ 4,465.3	AA	

The revenue bond portfolio is comprised primarily of essential service revenue bonds issued by water and sewer authorities and other utilities, transportation authorities, universities and healthcare providers.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Revenue Sources

State	As of June 30, 2011		As of December 31, 2010	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in millions)			
Transportation	\$ 760.7	\$ 742.2	\$ 725.5	\$ 718.9
Municipal utilities	502.9	487.8	457.8	456.8
Water and sewer	486.8	478.6	470.6	471.3
Higher education	299.3	293.1	298.2	302.1
Tax backed	634.4	616.6	609.0	607.2
Healthcare	241.1	234.9	207.3	206.5
All others	295.8	291.9	322.4	323.1
Total	\$ 3,221.0	\$ 3,145.1	\$ 3,090.8	\$ 3,085.9

The Company's investment portfolio is managed by four outside managers. As municipal investments are a material portion of the Company's overall investment portfolio, the Company has established detailed guidelines regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector. Each of the portfolio managers perform independent analysis on every municipal security they purchase for the Company's portfolio. The Company meets with each of its portfolio managers each quarter and reviews all investments with a change in credit rating as well as any investments on the manager's watch list of securities with the potential for downgrade. The Company does not independently assign investments within the Company's portfolio an individual rating.

The following tables summarize, for all securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

Fixed Maturity Securities

Gross Unrealized Loss by Length of Time

	Less than 12 months		As of June 30, 2011 12 months or more		Total Fair value	Total Unrealized loss
	Fair value	Unrealized loss	Fair value	Unrealized loss		

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(dollars in millions)

U.S. government and agencies	\$	54.4	\$	(0.2)	\$		\$	54.4	\$	(0.2)		
Obligations of state and political subdivisions		851.4		(16.0)		9.5		(0.8)		860.9		(16.8)
Corporate securities		355.8		(8.9)						355.8		(8.9)
Mortgage-backed securities:												
RMBS		218.4		(27.9)		10.1		(23.3)		228.5		(51.2)
CMBS		72.3		(0.4)						72.3		(0.4)
Asset-backed securities		43.7		(5.5)		2.2		(0.0)		45.9		(5.5)
Foreign government securities		80.1		(1.0)						80.1		(1.0)
Total	\$	1,676.1	\$	(59.9)	\$	21.8	\$	(24.1)	\$	1,697.9	\$	(84.0)
Number of securities				264				13				277
Number of securities with OTTI				5				3				8

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	As of December 31, 2010 (restated)					
	Less than 12 months Fair value	Unrealized loss	12 months or more Fair value (dollars in millions)	Unrealized loss	Total Fair value	Unrealized loss
U.S. government and agencies	\$ 20.5	\$ (0.4)	\$	\$	\$ 20.5	\$ (0.4)
Obligations of state and political subdivisions	1,694.5	(58.9)	23.5	(3.1)	1,718.0	(62.0)
Corporate securities	403.6	(12.8)			403.6	(12.8)
Mortgage-backed securities:						
RMBS	143.4	(32.1)	37.3	(12.2)	180.7	(44.3)
CMBS	92.6	(1.4)			92.6	(1.4)
Asset-backed securities	228.3	(5.1)	2.3	(0.1)	230.6	(5.2)
Foreign government securities	245.3	(6.2)			245.3	(6.2)
Total	\$ 2,828.2	\$ (116.9)	\$ 63.1	\$ (15.4)	\$ 2,891.3	\$ (132.3)
Number of securities		405		18		423
Number of securities with OTTI		10		3		13

The decrease in gross unrealized losses for Six Months 2011 was primarily attributable to municipal securities. Of the securities in an unrealized loss position for 12 months or more as of June 30, 2011, five securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of June 30, 2011 was \$23.3 million. The unrealized loss is yield-related and not specific to individual issuer credit. The Company has determined that these securities were not other-than-temporarily-impaired as of June 30, 2011.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities by contractual maturity as of June 30, 2011 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Distribution of Fixed Maturity Securities

by Contractual Maturity

As of June 30, 2011	
Amortized Cost	Estimated Fair Value

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	(in millions)	
Due within one year	\$ 279.4	\$ 281.2
Due after one year through five years	1,636.1	1,685.5
Due after five years through 10 years	2,515.4	2,626.0
Due after 10 years	3,457.6	3,537.9
Mortgage-backed securities:		
RMBS	1,208.8	1,217.5
CMBS	498.8	516.1
Total	\$ 9,596.1	\$ 9,864.2

Under agreements with its cedants and in accordance with statutory requirements, the Company maintains fixed maturity securities in trust accounts for the benefit of reinsured companies, which amounted to \$374.1 million and \$365.3 million as of June 30, 2011 and December 31, 2010, respectively. In addition, to fulfill state licensing requirements, the Company has placed on deposit eligible securities of \$19.1 million and \$19.2 million as of June 30, 2011 and December 31, 2010, respectively, for the protection of policyholders.

Under certain derivative contracts, the Company is required to post eligible securities as collateral. The need to post collateral under these transactions is generally based on mark-to-market valuations in excess of contractual thresholds. The fair market value of the Company's pledged securities totaled \$768.6 million and \$765.9 million as of June 30, 2011 and December 31, 2010, respectively.

No material investments of the Company were non-income-producing for Six Months 2011 and 2010, respectively.

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June 30, 2011

The Company purchased securities that it has insured, and for which it has expected losses to be paid, in order to mitigate the economic effect of insured losses. These securities were purchased at a discount and are accounted for excluding the effects of the Company's insurance on the securities. As of June 30, 2011, securities purchased for loss mitigation purposes had a fair value of \$168.1 million, representing \$406.6 million of par. Under the terms of certain credit derivative contracts, the Company has obtained the obligations referenced in the transactions and recorded such assets in fixed maturity securities in the consolidated balance sheets. Such amounts totaled \$193.4 million, representing \$246.9 million in par.

10. Insurance Company Regulatory Requirements

Dividend Restrictions and Capital Requirements

AGC is a Maryland domiciled insurance company. As of June 30, 2011, the amount available for distribution from AGC during 2011 with notice to, but without prior approval of, the Maryland Commissioner of Insurance under the Maryland insurance law is approximately \$106.6 million. During Six Months 2011 and 2010, AGC declared and paid \$10.0 million and \$30.0 million, respectively, in dividends to AGUS.

AGM is a New York domiciled insurance company. Based on AGM's statutory statements for Six Months 2011, the maximum amount available for payment of dividends by AGM without regulatory approval over the 12 months following June 30, 2011, was approximately \$130.4 million. In connection with the AGMH Acquisition, the Company has committed to the New York Insurance Department that AGM would not pay any dividends for a period of two years from the Acquisition Date without the written approval of the New York Insurance Department.

AG Re is a Bermuda domiciled insurance company and its dividend distribution is governed by Bermuda law. The amount available at AG Re to pay dividends in 2011 in compliance with Bermuda law is \$1,150 million. However, any distribution that results in a reduction of 15% or more of AG Re's total statutory capital, as set out in its previous year's financial statements, would require the prior approval of the Bermuda Monetary Authority. Dividends are limited by requirements that the subject company must at all times (i) maintain the minimum solvency margin required under the Insurance Act of 1978 and (ii) have relevant assets in an amount at least equal to 75% of relevant liabilities, both as defined under the Insurance Act of 1978. AG Re, as a Class 3B insurer, is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet the required margins. AG Re declared and paid \$24.0 million during Six Months 2011 to its parent, AGL. AG Re did not declare or pay any dividends during Six Months 2010.

11. Income Taxes

Provision for Income Taxes

The Company and its Bermuda Subsidiaries, which include AG Re, Assured Guaranty Re Overseas Ltd. (AGRO), Assured Guaranty (Bermuda) Ltd. (formerly Financial Security Assurance International Ltd.) and Cedar Personnel Ltd., are not subject to any income, withholding or capital gains taxes under current Bermuda law. The Company has received an assurance from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, AGL and its Bermuda Subsidiaries will be exempt from taxation in Bermuda until March 31, 2035. The Company's U.S. and United Kingdom (U.K.) subsidiaries are subject to income taxes imposed by U.S. and U.K. authorities, respectively, and file applicable tax returns. In addition, AGRO, a Bermuda domiciled company and Assured Guaranty (Europe) Ltd., a U.K. domiciled company, have elected under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. domestic corporation.

In conjunction with the AGMH Acquisition, AGMH has joined the consolidated federal tax group of AGUS, AGC, and AG Financial Products Inc. (AGFP). For the periods beginning on July 1, 2009 and forward, AGMH files a consolidated federal income tax return with AGUS, AGC, AGFP and AG Analytics Inc. (AGUS consolidated tax group). In addition a new tax sharing agreement was entered into effective July 1, 2009 whereby each company in the AGUS consolidated tax group will pay or receive its proportionate share of taxable expense or benefit as if it filed on a separate-return basis. Assured Guaranty Overseas US Holdings Inc. (AGOUS) and its subsidiaries AGRO, Assured Guaranty Mortgage Insurance Company and AG Intermediary Inc., have historically filed a consolidated federal income tax return. Each company, as a member of its respective consolidated tax return group, pays its proportionate share of the consolidated federal tax burden for its group as if each company filed on a separate return basis with current period credit for net losses to the extent used in consolidation.

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The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due to the variability in fair market value of its credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pretax income for the full year 2011. A discrete calculation of the provision is calculated for each interim period.

The effective tax rates reflect the proportion of income recognized by each of the Company's operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, U.K. subsidiaries taxed at the U.K. blended marginal corporate tax rate of 26.5%, and no taxes for the Company's Bermuda holding company and subsidiaries. For periods subsequent to April 1, 2011, the U.K. corporation tax rate has been reduced to 26%, for periods prior to April 1, 2011 the U.K. corporation tax rate was 28%, resulting in a blended tax rate of 26.5%. Accordingly, the Company's overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions.

A reconciliation of the difference between the provision for income taxes and the expected tax provision at statutory rates in taxable jurisdictions is presented below:

Effective Tax Rate Reconciliation

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(restated)	(restated)	(restated)	(restated)
	(in millions)			
Expected tax provision (benefit) at statutory rates in taxable jurisdictions	\$ (33.0)	\$ 91.0	\$ 55.7	\$ 223.5
Tax-exempt interest	(16.2)	(14.2)	(31.6)	(28.3)
Change in liability for uncertain tax positions	0.6	0.6	1.1	1.1
Other	0.9	0.5	2.0	1.4
Total provision (benefit) for income taxes	\$ (47.7)	\$ 77.9	\$ 27.2	\$ 197.7
Effective tax rate	52.9%	30.3%	21.6%	27.8%

The expected tax provision at statutory rates in taxable jurisdictions is calculated as the sum of pretax income in each jurisdiction multiplied by the statutory tax rate of the jurisdiction by which it will be taxed. Pretax income of the Company's subsidiaries which are not U.S. domiciled but are subject to U.S. tax by election or as controlled foreign corporations is included at the U.S. statutory tax rate. Where there is a pretax loss in one jurisdiction and pretax income in another, the total combined expected tax rate may be higher or lower than any of the individual statutory rates.

The following table presents pretax income and revenue by jurisdiction for the Second Quarter and Six Months 2011 and 2010.

Pretax Income (Loss) by Tax Jurisdiction(1)

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
	(restated)	(restated)	(restated)	(restated)
United States	\$ (94.4)	\$ 246.4	\$ 158.9	\$ 625.3
Bermuda	4.0	10.1	(33.9)	84.4
UK	0.1	0.5	0.2	0.6
Total	\$ (90.3)	\$ 257.0	\$ 125.2	\$ 710.3

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	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
	(restated)	(restated)	(restated)	(restated)
United States	\$ 75.7	\$ 368.1	\$ 369.4	\$ 896.9
Bermuda	40.6	56.6	25.8	191.9
UK			0.1	
Total	\$ 116.3	\$ 424.7	\$ 395.3	\$ 1,088.8

(1) In the above tables, pretax income and revenues of the Company's subsidiaries which are not U.S. domiciled but are subject to U.S. tax by election or as controlled foreign corporations are included in the U.S. amounts.

Pretax income by jurisdiction may be disproportionate to revenue by jurisdiction to the extent that insurance losses incurred are disproportionate.

Valuation Allowance

As of June 30, 2011 and December 31, 2010, net deferred tax assets for each period presented were \$1,031.4 million and \$1,259.1 million, respectively. The deferred tax assets for these periods consist primarily of the book and tax difference in treatment of unearned premium reserves, mark-to-market adjustments for CDS, loss reserves, and FG VIEs offset by net deferred tax liabilities. The Company came to the conclusion that it is more likely than not that its net deferred tax asset will be fully realizable after weighing all positive and negative evidence available as required under GAAP. The Company will continue to analyze the need for a valuation allowance on a quarter-to-quarter basis.

12. Reinsurance

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The Company assumes exposure on insured obligations (Assumed Business) and cedes portions of its exposure on obligations it has insured (Ceded Business) in exchange for premiums, net of ceding commissions.

Assumed Business

The Company is party to reinsurance agreements as a reinsurer to other monoline financial guaranty insurance companies. Under these relationships, the Company assumes a portion of the ceding company's insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums. The Company's facultative and treaty agreements are generally subject to termination:

- at the option of the primary insurer if the Company fails to maintain certain financial, regulatory and rating agency criteria that are equivalent to or more stringent than those the Company is otherwise required to maintain for its own compliance with state mandated insurance laws and to maintain a specified financial strength rating for the particular insurance subsidiary, or
- upon certain changes of control of the Company.

Upon termination under these conditions, the Company may be required (under some of its reinsurance agreements) to return to the primary insurer all statutory unearned premiums, less ceding commissions, attributable to reinsurance ceded pursuant to such agreements after which the Company would be released from liability with respect to the Assumed Business. Upon the occurrence of the conditions set forth in (a) above, whether or not an agreement is terminated, the Company may be required to obtain a letter of credit or alternative form of security to collateralize its obligation to perform under such agreement or it may be obligated to increase the level of ceding commission paid.

With respect to a significant portion of the Company's in-force financial guaranty Assumed Business, due to the downgrade of AG Re to A1, subject to the terms of each policy, the ceding company may have the right to recapture business ceded to AG Re and assets representing substantially all of the statutory unearned premium reserve net of loss reserves (if any) associated with that business. As of June 30, 2011, if this entire amount were recaptured, it would result in a

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June 30, 2011

corresponding one-time reduction to net income of approximately \$23.1 million. In the case of AGC, one ceding company can recapture its portfolio at the company's current ratings and, if AGC were downgraded by Moody's to below Aa3 or by S&P below AA-, an additional portion of its in-force financial guaranty reinsurance business could be recaptured. Subject to the terms of each reinsurance agreement, the ceding company has the right to recapture business ceded to AGC and assets representing substantially all of the statutory unearned premium and loss reserves (if any) associated with that business. As of June 30, 2011, if this entire amount were recaptured, it would result in a corresponding one-time reduction to net income of approximately \$12.4 million.

Ceded Business

The Company has Ceded Business to non-affiliated companies to limit its exposure to risk. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and been downgraded by the rating agencies as a result. In addition, state insurance regulators have intervened with respect to some of these insurers. The Company's ceded contracts generally allow the Company to recapture Ceded Business after certain triggering events, such as reinsurer downgrades. Over the past several years, the Company has entered into several commutations in order to reassume books of business from BIG financial guaranty companies and its other reinsurers. The resulting commutation gains of \$8.1 million, \$2.2 million, \$32.2 million and \$16.7 million for Second Quarter 2011 and 2010 and Six Months 2011 and 2010, respectively, were recorded in other income. While certain Ceded Business has been reassumed, the Company still has significant Ceded Business with third parties. It has not entered into any new ceded reinsurance treaties with non-affiliated companies since 2008.

The effect of the Company's commutations and cancellations of reinsurance contracts is summarized below.

**Net Effect of Commutations and Cancellations
of Reinsurance Contracts**

Second Quarter		Six Months	
2011	2010	2011	2010
(in millions)			

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Increase (decrease) in net unearned premium reserve	\$	(22.4)	\$	6.2	\$	(20.1)	\$	60.4
Increase (decrease) in net par		(1,045)		537		(780)		8,374

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Direct, assumed, and ceded premium and loss and LAE amounts are presented below.

Direct, Assumed and Ceded Premium and Loss and LAE

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
	(restated)	(restated)	(restated)	(restated)
Premiums Written:				
Direct	\$ 26.9	\$ 102.0	\$ 57.4	\$ 195.7
Assumed(1)	(9.9)	(10.1)	(51.9)	(11.8)
Ceded(2)	0.4	6.5	4.4	58.1
Net	\$ 17.4	\$ 98.4	\$ 9.9	\$ 242.0
Premiums Earned:				
Direct	\$ 238.6	\$ 309.4	\$ 514.9	\$ 636.1
Assumed	21.0	17.9	31.0	36.9
Ceded	(29.6)	(30.3)	(61.9)	(61.3)
Net	\$ 230.0	\$ 297.0	\$ 484.0	\$ 611.7
Loss and LAE:				
Direct	\$ 129.4	\$ 77.3	\$ 136.5	\$ 220.2
Assumed	7.2	12.4	(5.8)	40.5
Ceded	(12.7)	(4.0)	(32.3)	(64.1)
Net	\$ 123.9	\$ 85.7	\$ 98.4	\$ 196.6

(1) Negative assumed premiums written were due to commutations and changes in expected debt service schedules.

(2) Positive ceded premiums written were due to commutations and changes in expected debt service schedules.

Reinsurer Exposure

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In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to some financial guaranty reinsurers (i.e., monolines) in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by other monolines. The Company underwrites such transactions based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed maturity securities that are wrapped by monolines and whose value may decline based on the rating of the monoline. At June 30, 2011, the Company had \$828.8 million of fixed maturity securities in its investment portfolio wrapped by MBIA Insurance Corporation, \$598.5 million by Ambac and \$54.4 million by other guarantors at fair value.

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Exposure by Reinsurer

Reinsurer	Ratings at August 3, 2011		Par Outstanding as of June 30, 2011		
	Moody's Financial Strength Rating	S&P Financial Strength Rating	Ceded Par Outstanding(3) (dollars in millions)	Second-to- Pay Insured Par Outstanding	Assumed Par Outstanding
Radian Asset Assurance Inc.	Ba1	BB-	\$ 20,859	\$ 56	\$
Tokio Marine & Nichido Fire Insurance Co., Ltd.	Aa2(1)	AA-(1)	17,966		933
RAM Reinsurance Co. Ltd.	WR(2)	WR(2)	12,701		24
Syncora Guarantee Inc.	Ca	WR	4,334	2,323	217
Mitsui Sumitomo Insurance Co. Ltd.	Aa3	AA-	2,442		
ACA Financial Guaranty Corp	NR	WR	866	13	2
Swiss Reinsurance Co.	A1	A+	512		
Ambac	WR	WR	87	7,700	23,593
CIFG Assurance North America Inc.	WR	WR	69	258	10,158
MBIA Insurance Corporation	B3	B	45	11,704	10,773
Financial Guaranty Insurance Co.	WR	WR		3,854	2,350
Other	Various	Various	1,052	2,061	100
Total			\$ 60,933	\$ 27,969	\$ 48,150

(1) The Company has structural collateral agreements satisfying the triple-A credit requirement of S&P and/or Moody's.

(2) Represents Withdrawn Rating.

(3) Includes \$6,534 million in ceded par outstanding related to insured credit derivatives.

Amounts Due (To) From Reinsurers

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	As of June 30, 2011		
	Assumed Premium Receivable, net of Commissions	Assumed Expected Loss and LAE (in millions)	Ceded Expected Loss and LAE
Radian Asset Assurance Inc.	\$	\$	\$ 13.7
Tokio Marine & Nichido Fire Insurance Co., Ltd.			47.3
RAM Reinsurance Co. Ltd.			9.1
Syncora Guarantee Inc.		(0.3)	0.1
Mitsui Sumitomo Insurance Co. Ltd.			2.9
Swiss Reinsurance Co.			1.6
Ambac	111.3	(98.4)	
CIFG Assurance North America Inc.	7.1	(1.2)	1.3
MBIA Insurance Corporation	1.2	(21.0)	
Financial Guaranty Insurance Co.	13.4	(31.0)	
Total	\$ 133.0	\$ (151.9)	\$ 76.0

13. Commitments and Contingencies

Legal Proceedings

Litigation

Lawsuits arise in the ordinary course of the Company's business. It is the opinion of the Company's management, based upon the information available, that the expected outcome of litigation against the Company, individually or in the aggregate, will not have a material adverse effect on the Company's financial position or liquidity, although an adverse

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

resolution of litigation against the Company in a quarter or fiscal year could have a material adverse effect on the Company's results of operations in a particular quarter or fiscal year. In addition, in the ordinary course of their respective businesses, certain of the Company's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods. For example, as described in Note 5 (Financial Guaranty Insurance Contracts Loss Estimation Process Recovery Litigation), as of August 9, 2011, AGC and AGM have filed complaints against certain sponsors and underwriters of RMBS securities that AGC or AGM had insured, alleging, among other claims, that such persons had breached representations and warranties in the transaction documents, failed to cure or repurchase defective loans and/or violated state securities laws. The amounts, if any, the Company will recover in proceedings to recover losses are uncertain, and recoveries, or failure to obtain recoveries, in any one or more of these proceedings during any quarter or fiscal year could be material to the Company's results of operations in that particular quarter or fiscal year.

Proceedings Relating to the Company's Financial Guaranty Business

The Company receives subpoenas *duces tecum* and interrogatories from regulators from time to time. The Company has satisfied the requests it has received. It may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future.

Beginning in December 2008, AGM and various other financial guarantors were named in complaints filed in the Superior Court, San Francisco County, California. Since that time, plaintiffs' counsel has filed amended complaints against AGC and AGM and added additional plaintiffs. As of August 9, 2011, the plaintiffs with complaints against AGM and AGC, among other financial guaranty insurers, were: (a) *City of Los Angeles, acting by and through the Department of Water and Power*; (b) *City of Sacramento*; (c) *City of Los Angeles*; (d) *City of Oakland*; (e) *City of Riverside*; (f) *City of Stockton*; (g) *County of Alameda*; (h) *County of Contra Costa*; (i) *County of San Mateo*; (j) *Los Angeles World Airports*; (k) *City of Richmond*; (l) *Redwood City*; (m) *East Bay Municipal Utility District*; (n) *Sacramento Suburban Water District*; (o) *City of San Jose*; (p) *County of Tulare*; (q) *The Regents of the University of California*; (r) *The Redevelopment Agency of the City of Riverside*; (s) *The Public Financing Authority of the City of Riverside*; (t) *The Jewish Community Center of San Francisco*; (u) *The San Jose Redevelopment Agency*; and (v) *The Olympic Club*. Complaints filed by the *City and County of San Francisco* and the *Sacramento Municipal Utility District* were subsequently dismissed against AGC and AGM. At a hearing on March 1, 2010, the court struck all of the plaintiffs' complaints with leave to amend. The court instructed plaintiffs to file one consolidated complaint. On October 13, 2010, plaintiffs' counsel filed three consolidated complaints, two of which also added the three major credit rating agencies as defendants in addition to the financial guaranty insurers. In November 2010, the credit rating agency defendants filed a motion to remove the cases to the Northern District of California and plaintiffs responded with a motion to remand the cases back to California state court. On January 31, 2011, the court for the Northern District of California granted plaintiffs' motion and the action was remanded to the Superior Court, San Francisco County, California. These complaints allege that the financial guaranty insurer defendants (i) participated in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance, (ii) participated in risky financial transactions in other lines of business that damaged each insurer's financial condition (thereby undermining the value of each of their guaranties), and (iii) failed to adequately disclose the impact of those transactions on their financial condition. In addition to their antitrust claims, various plaintiffs in these actions assert claims for breach of the covenant of good faith and fair dealing, fraud, unjust

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enrichment, negligence, and negligent misrepresentation. At a hearing held on July 6 and 7, 2011 relating to AGM, AGC and the other defendants' motion to dismiss, the court overruled the motion to dismiss on the following claims: breach of contract and violation of California's antitrust statute and of its unfair business practices law. The court sustained the motion to dismiss on the fraud claim, with leave to amend. The remaining claims were dismissed without leave to amend. The court ordered the plaintiffs to file their amended complaint by August 8, 2011 and scheduled a hearing for October 13, 2011. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss that may arise from these lawsuits. See Note 17.

In August 2008, a number of financial institutions and other parties, including AGM and other bond insurers, were named as defendants in a civil action brought in the circuit court of Jefferson County, Alabama relating to the County's problems meeting its debt obligations on its \$3.2 billion sewer debt: *Charles E. Wilson vs. JPMorgan Chase & Co et al* (filed

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the Circuit Court of Jefferson County, Alabama), Case No. 01-CV-2008-901907.00, a putative class action. The action was brought on behalf of rate payers, tax payers and citizens residing in Jefferson County, and alleges conspiracy and fraud in connection with the issuance of the County's debt. The complaint in this lawsuit seeks equitable relief, unspecified monetary damages, interest, attorneys' fees and other costs. On January 13, 2011, the circuit court issued an order denying a motion by the bond insurers and other defendants to dismiss the action. Defendants, including the bond insurers, have petitioned the Alabama Supreme Court for a writ of mandamus to the circuit court vacating such order and directing the dismissal with prejudice of plaintiffs' claims for lack of standing. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

In September 2010, AGM, among others, was named as a defendant in an interpleader complaint filed by Wells Fargo Bank, N.A., as trust administrator, in the United States District Court, Southern District of New York. The interpleader complaint relates to the MASTR Adjustable Rate Mortgages Trust 2006-OA2, Mortgage Pass-Through Certificates, Series 2006-OA2 RMBS transaction, in which AGM had insured certain classes of certificates. Certain holders of uninsured certificates have disputed payments made by the trust administrator to reimburse AGM for claims it had paid under its financial guaranty policy, and the trust administrator sought adjudication of the priority of AGM's reimbursements. On March 29, 2011, the court granted a motion for judgment on the pleadings and ruled that, pursuant to the waterfall, AGM is only entitled to receive funds that would otherwise have been distributed to the holders of the classes that AGM insures, and that AGM receive such funds at the respective steps in the waterfall that immediately follow the steps at which such certificate holders would otherwise have received such funds. The court further ordered AGM to repay to the MARM 2006-OA2 trust the approximately \$7.2 million that had been credited to it by Wells Fargo. AGM intends to appeal this ruling. AGM estimates that as a result of this adverse decision (if and to the extent that the adverse decision is not modified), total unreimbursed claims paid by AGM could be up to approximately \$144 million (on a gross discounted basis, without taking into account the benefit of representation and warranty recoveries, and exclusive of the repayment of the \$7.2 million credit), over the life of the transaction. See Note 17.

On April 8, 2011, AG Re and AGC filed a Petition to Compel Arbitration with the Supreme Court of the State of New York, requesting an order compelling Ambac to arbitrate Ambac's disputes with AG Re and AGC concerning their obligations under reinsurance agreements with Ambac. In March 2010, Ambac placed a number of insurance policies that it had issued, including policies reinsured by AG Re and AGC pursuant to the reinsurance agreements, into a segregated account. The Wisconsin state court has approved a rehabilitation plan whereby permitted claims under the policies in the segregated account will be paid 25% in cash and 75% in surplus notes issued by the segregated account. Ambac has advised AG Re and AGC that it has and intends to continue to enter into commutation agreements with holders of policies issued by Ambac, and reinsured by AG Re and AGC, pursuant to which Ambac will pay a combination of cash and surplus notes to the policyholder. AG Re and AGC have informed Ambac that they believe their only current payment obligation with respect to the commutations arises from the cash payment, and that there is no obligation to pay any amounts in respect of the surplus notes until payments of principal or interest are made on such notes. Ambac has disputed this position on one commutation and may take a similar position on subsequent commutations. On April 15, 2011, attorneys for the Wisconsin Insurance Commissioner, as Rehabilitator of Ambac's segregated account, and for Ambac filed a motion with Lafayette County, Wis., Circuit Court Judge William Johnston, asking him to find AG Re and AGC to be in violation of an injunction protecting the interests of the segregated account by their seeking to compel arbitration on this matter and failing to pay in full all amounts with respect to Ambac's payments in the form of surplus notes. On June 14, 2011, Judge Johnston issued an order granting the Rehabilitator's and Ambac's motion to enforce the injunction against AGC and AG Re and the parties filed a stipulation dismissing the Petition to Compel Arbitration without prejudice. On June 28, 2011, AGC and AG Re filed a notice of appeal and a petition for a conditional interlocutory appeal of Judge

Johnston's order to the Wisconsin Court of Appeals. See Note 17.

Proceedings Related to AGMH's Former Financial Products Business

The following is a description of legal proceedings involving AGMH's former Financial Products Business. Although the Company did not acquire AGMH's former Financial Products Business, which included AGMH's former guaranteed investment contract (GIC) business, medium term notes business and portions of the leveraged lease businesses, certain legal proceedings relating to those businesses are against entities that the Company did acquire. While Dexia SA and Dexia Crédit Local (DCL), jointly and severally, have agreed to indemnify the Company against liability arising out of the proceedings described below in this Proceedings Related to AGMH's Former Financial Products Business section, such indemnification might not be sufficient to fully hold the Company harmless against any injunctive relief or criminal sanction that is imposed against AGMH or its subsidiaries.

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Governmental Investigations into Former Financial Products Business

AGMH and/or AGM have received subpoenas *duces tecum* and interrogatories or civil investigative demands from the Attorney General of the States of Connecticut, Florida, Illinois, Massachusetts, Missouri, New York, Texas and West Virginia relating to their investigations of alleged bid rigging of municipal GICs. AGMH is responding to such requests. AGMH may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future. In addition,

- AGMH received a subpoena from the Antitrust Division of the Department of Justice in November 2006 issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives;
- AGM received a subpoena from the SEC in November 2006 related to an ongoing industry-wide investigation concerning the bidding of municipal GICs and other municipal derivatives; and
- AGMH received a Wells Notice from the staff of the Philadelphia Regional Office of the SEC in February 2008 relating to the investigation concerning the bidding of municipal GICs and other municipal derivatives. The Wells Notice indicates that the SEC staff is considering recommending that the SEC authorize the staff to bring a civil injunctive action and/or institute administrative proceedings against AGMH, alleging violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act.

Pursuant to the subpoenas, AGMH has furnished to the Department of Justice and SEC records and other information with respect to AGMH's municipal GIC business. The ultimate loss that may arise from these investigations remains uncertain.

Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives,

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including GICs. These cases have been coordinated and consolidated for pretrial proceedings in the U.S. District Court for the Southern District of New York as MDL 1950, *In re Municipal Derivatives Antitrust Litigation*, Case No. 1:08-cv-2516 (MDL 1950).

Five of these cases named both AGMH and AGM: (a) *Hinds County, Mississippi v. Wachovia Bank, N.A.*; (b) *Fairfax County, Virginia v. Wachovia Bank, N.A.*; (c) *Central Bucks School District, Pennsylvania v. Wachovia Bank, N.A.*; (d) *Mayor and City Council of Baltimore, Maryland v. Wachovia Bank, N.A.*; and (e) *Washington County, Tennessee v. Wachovia Bank, N.A.* In April 2009, the MDL 1950 court granted the defendants' motion to dismiss on the federal claims, but granted leave for the plaintiffs to file a second amended complaint. In June 2009, interim lead plaintiffs' counsel filed a Second Consolidated Amended Class Action Complaint; although the Second Consolidated Amended Class Action Complaint currently describes some of AGMH's and AGM's activities, it does not name those entities as defendants. In March 2010, the MDL 1950 court denied the named defendants' motions to dismiss the Second Consolidated Amended Class Action Complaint. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys' fees and other costs. The Company cannot reasonably estimate the possible loss or range of loss that may arise from these lawsuits.

Four of the cases named AGMH (but not AGM) and also alleged that the defendants violated California state antitrust law and common law by engaging in illegal bid-rigging and market allocation, thereby depriving the cities or municipalities of competition in the awarding of GICs and ultimately resulting in the cities paying higher fees for these products: (f) *City of Oakland, California v. AIG Financial Products Corp.*; (g) *County of Alameda, California v. AIG Financial Products Corp.*; (h) *City of Fresno, California v. AIG Financial Products Corp.*; and (i) *Fresno County Financing Authority v. AIG Financial Products Corp.* When the four plaintiffs filed a consolidated complaint in September 2009, the plaintiffs did not name AGMH as a defendant. However, the complaint does describe some of AGMH's and AGM's activities. The consolidated complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. In April 2010, the MDL 1950 court granted in part and denied in part the named defendants' motions to dismiss this consolidated complaint.

In 2008, AGMH and AGM also were named in five non-class action lawsuits originally filed in the California Superior Courts alleging violations of California law related to the municipal derivatives industry: (a) *City of Los Angeles*,

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California v. Bank of America, N.A.; (b) *City of Stockton, California v. Bank of America, N.A.*; (c) *County of San Diego, California v. Bank of America, N.A.*; (d) *County of San Mateo, California v. Bank of America, N.A.*; and (e) *County of Contra Costa, California v. Bank of America, N.A.* Amended complaints in these actions were filed in September 2009, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. These cases have been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings.

In late 2009, AGM and AGUS, among other defendants, were named in six additional non-class action cases filed in federal court, which also have been coordinated and consolidated for pretrial proceedings with MDL 1950: (f) *City of Riverside, California v. Bank of America, N.A.*; (g) *Sacramento Municipal Utility District v. Bank of America, N.A.*; (h) *Los Angeles World Airports v. Bank of America, N.A.*; (i) *Redevelopment Agency of the City of Stockton v. Bank of America, N.A.*; (j) *Sacramento Suburban Water District v. Bank of America, N.A.*; and (k) *County of Tulare, California v. Bank of America, N.A.*

The MDL 1950 court denied AGM and AGUS's motions to dismiss these eleven complaints in April 2010. Amended complaints were filed in May 2010. On October 29, 2010, AGM and AGUS were voluntarily dismissed with prejudice from the *Sacramento Municipal Utility District* case only. The complaints in these lawsuits generally seek or sought unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss that may arise from the remaining lawsuits.

In May 2010, AGM and AGUS, among other defendants, were named in five additional non-class action cases filed in federal court in California: (a) *City of Richmond, California v. Bank of America, N.A.* (filed on May 18, 2010, N.D. California); (b) *City of Redwood City, California v. Bank of America, N.A.* (filed on May 18, 2010, N.D. California); (c) *Redevelopment Agency of the City and County of San Francisco, California v. Bank of America, N.A.* (filed on May 21, 2010, N.D. California); (d) *East Bay Municipal Utility District, California v. Bank of America, N.A.* (filed on May 18, 2010, N.D. California); and (e) *City of San Jose and the San Jose Redevelopment Agency, California v. Bank of America, N.A.* (filed on May 18, 2010, N.D. California). These cases have also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In September 2010, AGM and AGUS, among other defendants, were named in a sixth additional non-class action filed in federal court in New York, but which alleges violation of New York's Donnelly Act in addition to federal antitrust law: *Active Retirement Community, Inc. d/b/a Jefferson's Ferry v. Bank of America, N.A.* (filed on September 21, 2010, E.D. New York), which has also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In December 2010, AGM and AGUS, among other defendants, were named in a seventh additional non-class action filed in federal court in the Central District of California, *Los Angeles Unified School District v. Bank of America, N.A.*, and in an eighth additional non-class action filed in federal court in the Southern District of New York, *Kendal on Hudson, Inc. v. Bank of America, N.A.* These cases also have been consolidated with MDL 1950 for pretrial proceedings. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss that may arise from these lawsuits.

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In January 2011, AGM and AGUS, among other defendants, were named in an additional non-class action case filed in federal court in New York, which alleges violation of New York's Donnelly Act in addition to federal antitrust law: *Peconic Landing at Southold, Inc. v. Bank of America, N.A.* This case has been consolidated with MDL 1950 for pretrial proceedings. The complaint in this lawsuit generally seeks unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

In September 2009, the Attorney General of the State of West Virginia filed a lawsuit (Circuit Ct. Mason County, W. Va.) against Bank of America, N.A. alleging West Virginia state antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. An amended complaint in this action was filed in June 2010, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. This case has been removed to federal court as well as transferred to the S.D.N.Y. and consolidated with MDL 1950 for pretrial proceedings. The complaint in this lawsuit generally seeks civil penalties, unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

14. Long-Term Debt and Credit Facilities

Long-Term Debt Obligations

The principal and carrying values of the Company's long-term debt were as follows:

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	As of June 30, 2011		As of December 31, 2010	
	Principal	Carrying Value	Principal	Carrying Value
	(in millions)			
AGUS:				
7.0% Senior Notes	\$ 200.0	\$ 197.6	\$ 200.0	\$ 197.6
8.50% Senior Notes	172.5	171.5	172.5	171.0
Series A Enhanced Junior Subordinated Debentures	150.0	149.8	150.0	149.8
Total AGUS	522.5	518.9	522.5	518.4
AGMH:				
67/8% QUIBS	100.0	67.2	100.0	67.0
6.25% Notes	230.0	135.5	230.0	135.0
5.60% Notes	100.0	53.3	100.0	53.0
Junior Subordinated Debentures	300.0	155.3	300.0	152.5
Notes Payable	109.0	116.2	119.3	127.0
Total AGMH	839.0	527.5	849.3	534.5
Total	\$ 1,361.5	\$ 1,046.4	\$ 1,371.8	\$ 1,052.9

Recourse Credit Facilities**2006 Credit Facility**

On November 6, 2006, AGL and certain of its subsidiaries entered into a \$300.0 million, five-year unsecured revolving credit facility (the 2006 Credit Facility) with a syndicate of banks. Under the 2006 Credit Facility, each of AGC, AGUK, AG Re, AGRO and AGL are entitled to request the banks to make loans to such borrower or to request that letters of credit be issued for the account of such borrower. Of the \$300.0 million available to be borrowed, no more than \$100.0 million may be borrowed by AGL, AG Re or AGRO, individually or in the aggregate, and no more than \$20.0 million may be borrowed by AGUK. The stated amount of all outstanding letters of credit and the amount of all unpaid drawings in respect of all letters of credit cannot, in the aggregate, exceed \$100.0 million. The 2006 Credit Facility also provides that Assured Guaranty may request that the commitment of the banks be increased an additional \$100.0 million up to a maximum aggregate amount of \$400.0 million. Any such incremental commitment increase is subject to certain conditions provided in the agreement and must be for at least \$25.0 million.

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The proceeds of the loans and letters of credit are to be used for the working capital and other general corporate purposes of the borrowers and to support reinsurance transactions.

At the effective date of the 2006 Credit Facility, AGC guaranteed the obligations of AGUK under the facility, and AGL guaranteed the obligations of AG Re and AGRO under the facility and agreed that, if the Company consolidated assets (as defined in the related credit agreement) of AGC and its subsidiaries were to fall below \$1.2 billion, it would, within 15 days, guarantee the obligations of AGC and AGUK under the facility. At the same time, AGOUS guaranteed the obligations of AGL, AG Re and AGRO under the facility, and each of AG Re and AGRO guaranteed the other as well as AGL.

The 2006 Credit Facility's financial covenants require that AGL:

- (a) maintain a minimum net worth of 75% of the Consolidated Net Worth of Assured Guaranty as of June 30, 2009 (calculated as if the AGMH Acquisition had been consummated on such date); and
- (b) maintain a maximum debt-to-capital ratio of 30%.

In addition, the 2006 Credit Facility requires that AGC maintain qualified statutory capital of at least 75% of its statutory capital as of the fiscal quarter ended June 30, 2006. Furthermore, the 2006 Credit Facility contains restrictions on AGL and its subsidiaries, including, among other things, in respect of their ability to incur debt, permit liens, become liable in respect of guaranties, make loans or investments, pay dividends or make distributions, dissolve or become party to a merger, consolidation or acquisition, dispose of assets or enter into affiliate transactions. Most of these restrictions are subject to certain minimum thresholds and exceptions. The 2006 Credit Facility has customary events of default, including (subject

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to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, bankruptcy or insolvency proceedings, change of control and cross-default to other debt agreements. A default by one borrower will give rise to a right of the lenders to terminate the facility and accelerate all amounts then outstanding. As of June 30, 2011 and December 31, 2010, Assured Guaranty was in compliance with all of the financial covenants.

As of June 30, 2011 and December 31, 2010, no amounts were outstanding under this facility, nor have there been any borrowings during the life of the 2006 Credit Facility. See Note 17.

Letters of credit totaling approximately \$2.9 million remained outstanding as of June 30, 2011 and December 31, 2010. The Company obtained the letters of credit in connection with entering into a lease for new office space in 2008, which space was subsequently sublet.

2009 Strip Coverage Facility

In connection with the AGMH Acquisition, AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is mitigated by the strip coverage facility described below.

In a leveraged lease transaction, a tax-exempt entity (such as a transit agency) transfers tax benefits to a tax-paying entity by transferring ownership of a depreciable asset, such as subway cars. The tax-exempt entity then leases the asset back from its new owner.

If the lease is terminated early, the tax-exempt entity must make an early termination payment to the lessor. A portion of this early termination payment is funded from monies that were pre-funded and invested at the closing of the leveraged lease transaction (along with earnings on those invested funds). The tax-exempt entity is obligated to pay the remaining, unfunded portion of this early termination payment (known as the strip coverage) from its own sources. AGM issued financial guaranty insurance policies (known as strip policies) that guaranteed the payment of these unfunded strip coverage amounts to the lessor, in the event that a tax-exempt entity defaulted on its obligation to pay this portion of its early termination payment. AGM can then seek reimbursement of its strip policy payments from the tax-exempt entity, and can also sell the transferred depreciable asset and reimburse itself from the sale proceeds.

One event that may lead to an early termination of a lease is the downgrade of AGM, as the strip coverage provider, or the downgrade of the equity payment undertaker within the transaction, in each case, generally to a financial strength rating below double-A. Upon such downgrade, the tax-exempt entity is generally obligated to find a replacement credit enhancer within a specified period of time; failure to find a replacement could result in a lease default, and failure to cure the default within a specified period of time could lead to an early termination of the lease and a demand by the lessor for a termination payment from the tax-exempt entity. However, even in the event of an early termination of the lease, there would not necessarily be an automatic draw on AGM's policy, as this would only occur to the extent the tax-exempt entity does not make the required termination payment.

AIG International Group, Inc. is one entity that has acted as equity payment undertaker in a number of transactions in which AGM acted as strip coverage provider. AIG was downgraded in the third quarter of 2008 and AGM was downgraded by Moody's in the fourth quarter of 2008. As a result of those downgrades, as of June 30, 2011, 45 leveraged lease transactions in which AGM acts as strip coverage provider were breaching either a ratings trigger related to AIG or a ratings trigger related to AGM. For such 45 leveraged lease transactions, if early termination of the leases were to occur and the tax-exempt entities do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$1.1 billion as of June 30, 2011. If AGM were downgraded to A+ by S&P or A1 by Moody's, as of June 30, 2011, another 26 leveraged lease transactions in which AGM acts as strip coverage provider would be affected. For such 26 leveraged lease transactions, if early termination of the leases were to occur and the tax-exempt entities do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of an additional approximately \$1.0 billion as of June 30, 2011. To date, none of the leveraged lease transactions that involve AGM has experienced an early termination due to a lease default and a claim on the AGM guaranty. It is difficult to determine the probability that the Company will have to pay strip provider claims or the likely aggregate amount of such claims. At June 30, 2011, approximately \$0.6 billion of cumulative strip par exposure had been terminated on a consensual basis. The consensual terminations have resulted in no claims on AGM.

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On July 1, 2009, AGM and DCL, acting through its New York Branch (Dexia Crédit Local (NY)), entered into a credit facility (the Strip Coverage Facility). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount. The commitment amount of the Strip Coverage Facility was \$1 billion at closing of the AGMH Acquisition but is scheduled to amortize over time. As of June 30, 2011, the maximum commitment amount of the Strip Coverage Facility has amortized to \$988.4 million. It may also be reduced in 2014 to \$750 million, if AGM does not have a specified consolidated net worth at that time.

Fundings under this facility are subject to certain conditions precedent, and their repayment is collateralized by a security interest that AGM granted to Dexia Crédit Local (NY) in amounts that AGM recovers from the tax-exempt entity, or from asset sale proceeds following its payment of strip policy claims. The Strip Coverage Facility will terminate upon the earliest to occur of an AGM change of control, the reduction of the commitment amount to \$0, and January 31, 2042.

The Strip Coverage Facility s financial covenants require that AGM and its subsidiaries maintain a maximum debt-to-capital ratio of 30% and maintain a minimum net worth of 75% of consolidated net worth as of July 1, 2009, plus, starting July 1, 2014, 25% of the aggregate consolidated net income (or loss) for the period beginning July 1, 2009 and ending on June 30, 2014 or, if the commitment amount has been reduced to \$750 million as described above, zero. The Company is in compliance with all financial covenants as of August 9, 2011.

The Strip Coverage Facility contains restrictions on AGM, including, among other things, in respect of its ability to incur debt, permit liens, pay dividends or make distributions, dissolve or become party to a merger or consolidation. Most of these restrictions are subject to exceptions. The Strip Coverage Facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, bankruptcy or insolvency proceedings and cross-default to other debt agreements.

As of June 30, 2011 and December 31, 2010, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this facility. See Note 17.

Limited Recourse Credit Facilities

AG Re Credit Facility

On July 31, 2007, AG Re entered into a limited recourse credit facility (AG Re Credit Facility) with a syndicate of banks which provides up to \$200.0 million for the payment of losses in respect of the covered portfolio. The AG Re Credit Facility expires in June 2014. The facility can be utilized after AG Re has incurred, during the term of the facility, cumulative municipal losses (net of any recoveries) in excess of the greater of \$260 million or the average annual debt service of the covered portfolio multiplied by 4.5%. The obligation to repay loans under this agreement is a limited recourse obligation payable solely from, and collateralized by, a pledge of recoveries realized on defaulted insured obligations in the covered portfolio, including certain installment premiums and other collateral.

As of June 30, 2011 and December 31, 2010, no amounts were outstanding under this facility nor have there been any borrowings during the life of this facility.

AGM Credit Facility

On April 30, 2005, AGM entered into a limited recourse credit facility (AGM Credit Facility) with a syndicate of international banks, which provides up to \$297.5 million for the payment of losses in respect of the covered portfolio. The AGM Credit Facility expires in April 2015. The facility can be utilized after AGM has incurred, during the term of the facility, cumulative municipal losses (net of any recoveries) in excess of the greater of \$297.5 million or the average annual debt service of the covered portfolio multiplied by 5.0%. The obligation to repay loans under this agreement is a limited recourse obligation payable solely from, and collateralized by, a pledge of recoveries realized on defaulted insured obligations in the covered portfolio, including certain installment premiums and other collateral. The ratings downgrade of AGM by Moody's to Aa3 in November 2008 resulted in an increase to the commitment fee.

As of June 30, 2011 and December 31, 2010, no amounts were outstanding under this facility nor have there been any borrowings during the life of this facility.

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Committed Capital Securities

On April 8, 2005, AGC entered into separate agreements (the Put Agreements) with four custodial trusts (each, a Custodial Trust) pursuant to which AGC may, at its option, cause each of the Custodial Trusts to purchase up to \$50.0 million of perpetual preferred stock of AGC (the AGC Preferred Stock). The custodial trusts were created as a vehicle for providing capital support to AGC by allowing AGC to obtain immediate access to new capital at its sole discretion at any time through the exercise of the put option. If the put options were exercised, AGC would receive \$200.0 million in return for the issuance of its own perpetual preferred stock, the proceeds of which may be used for any purpose, including the payment of claims. The put options have not been exercised through the date of this filing. Initially, all of AGC committed capital securities (CCS) were issued to a special purpose pass-through trust (the Pass-Through Trust). The Pass-Through Trust was dissolved in April 2008, and the AGC CCS Securities were distributed to the holders of the Pass-Through Trust's securities. Neither the Pass-Through Trust nor the custodial trusts are consolidated in the Company's financial statements.

Income distributions on the Pass-Through Trust Securities and AGC CCS Securities were equal to an annualized rate of one-month LIBOR plus 110 basis points for all periods ending on or prior to April 8, 2008. Following dissolution of the Pass-Through Trust, distributions on the AGC CCS Securities are determined pursuant to an auction process. On April 7, 2008 this auction process failed, thereby increasing the annualized rate on the AGC CCS Securities to one-month LIBOR plus 250 basis points. Distributions on the AGC preferred stock will be determined pursuant to the same process.

In June 2003, \$200.0 million of AGM CPS Securities, money market preferred trust securities, were issued by trusts created for the primary purpose of issuing the AGM CPS Securities, investing the proceeds in high-quality commercial paper and selling put options to AGM, allowing AGM to issue the trusts non-cumulative redeemable perpetual preferred stock (the AGM Preferred Stock) of AGM in exchange for cash. There are four trusts, each with an initial aggregate face amount of \$50 million. These trusts hold auctions every 28 days, at which time investors submit bid orders to purchase AGM CPS Securities. If AGM were to exercise a put option, the applicable trust would transfer the portion of the proceeds attributable to principal received upon maturity of its assets, net of expenses, to AGM in exchange for AGM Preferred Stock. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM CPS Securities required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock. The trusts provide AGM access to new capital at its sole discretion through the exercise of the put options. The Company does not consider itself to be the primary beneficiary of the trusts because it does not retain the majority of the residual benefits or expected losses.

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Committed Capital Securities

Fair Value Gain (Loss)

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
AGC CCS	\$ 0.3	\$ 5.9	\$ 0.6	\$ 7.3
AGM CPS	0.3	6.7	0.5	4.0

15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions, except per share amounts)			
	(restated)	(restated)	(restated)	(restated)
Basic earnings per share:				
Net income (loss)	\$ (42.6)	\$ 179.1	\$ 98.0	\$ 512.6
Less: Distributed and undistributed income (loss) available to nonvested shareholders		0.3	0.1	1.0
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries	\$ (42.6)	\$ 178.8	\$ 97.9	\$ 511.6
Basic shares	184.2	184.1	184.0	184.2
Basic earnings per share	\$ (0.23)	\$ 0.97	\$ 0.53	\$ 2.78
Diluted earnings per share:				
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries	\$ (42.6)	\$ 178.8	\$ 97.9	\$ 511.6
Plus: Re-allocation of undistributed income (loss) available to nonvested shareholders of AGL and subsidiaries				
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries	\$ (42.6)	\$ 178.8	\$ 97.9	\$ 511.6
Basic shares	184.2	184.1	184.0	184.2
Effect of dilutive securities:				

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Options and restricted stock awards			0.8		0.9		0.9	
Equity units			3.9		2.5		4.7	
Diluted shares		184.2	188.8		187.4	\$	189.8	
Diluted earnings per share	\$	(0.23)	\$	0.95	\$	0.52	\$	2.70
Potentially dilutive securities excluded from computation of earnings per share because of antidilutive effect		9.6	2.7		2.9		2.4	

Table of Contents**Assured Guaranty Ltd.****Notes to Consolidated Financial Statements (Unaudited) (Continued)****June 30, 2011****16. Subsidiary Information**

The following tables present the condensed consolidating financial information for AGMH and AGUS, which have issued publicly traded debt securities that are fully and unconditionally guaranteed by AGL. The information for AGMH and AGUS presents its subsidiaries on the equity method of accounting.

CONDENSED CONSOLIDATING BALANCE SHEET**AS OF JUNE 30, 2011****(in millions)****(Restated)**

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Assets						
Total investment portfolio and cash	\$ 16.0	\$ 22.2	\$ 57.9	\$ 11,291.3	\$	\$ 11,387.4
Investment in subsidiaries	3,885.3	3,173.9	2,684.7	2,695.3	(12,439.2)	
Premiums receivable, net of ceding commissions payable				1,193.2	(133.7)	1,059.5
Ceded unearned premium reserve				1,802.6	(1,029.3)	773.3
Deferred acquisition costs				331.6	(99.3)	232.3
Reinsurance recoverable on unpaid losses				114.9	(88.9)	26.0
Credit derivative assets				669.2	(65.3)	603.9
Deferred tax asset, net		(0.6)	(94.6)	1,130.2	(3.6)	1,031.4
Intercompany receivable				300.0	(300.0)	
Financial guaranty variable interest entities assets, at fair value				3,492.2		3,492.2
Other assets(1)	23.8	21.7	37.2	719.1	(108.0)	693.8

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Total assets	\$	3,925.1	\$	3,217.2	\$	2,685.2	\$	23,739.6	\$	(14,267.3)	\$	19,299.8
Liabilities and shareholders equity												
Unearned premium reserves	\$		\$		\$		\$	7,289.9	\$	(974.5)	\$	6,315.4
Loss and LAE reserve								625.0		(106.9)		518.1
Long-term debt				518.9		411.3		116.2				1,046.4
Intercompany payable								300.0		(300.0)		
Credit derivative liabilities				0.2				2,856.6		(65.4)		2,791.4
Financial guaranty variable interest entities liabilities, at fair value								4,131.4				4,131.4
Other liabilities(2)		11.2		2.8		17.2		780.7		(228.7)		583.2
Total liabilities		11.2		521.9		428.5		16,099.8		(1,675.5)		15,385.9
Total shareholders equity		3,913.9		2,695.3		2,256.7		7,639.8		(12,591.8)		3,913.9
Total liabilities and shareholders equity	\$	3,925.1	\$	3,217.2	\$	2,685.2	\$	23,739.6	\$	(14,267.3)	\$	19,299.8

(1) Includes salvage and subrogation recoverable, current income tax receivable and other assets.

(2) Includes reinsurance balances payable, net and other liabilities.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2010

(in millions)

(Restated)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Assets						
Total investment portfolio and cash	\$ 22.5	\$ 15.7	\$ 45.7	\$ 10,765.4	\$	\$ 10,849.3
Investment in subsidiaries	3,703.6	2,965.4	2,316.9	2,489.8	(11,475.7)	
Premiums receivable, net of ceding commissions payable				1,346.8	(179.2)	1,167.6
Ceded unearned premium reserve				1,883.4	(1,061.6)	821.8
Deferred acquisition costs				350.4	(110.6)	239.8
Reinsurance recoverable on unpaid losses				93.1	(70.8)	22.3
Credit derivative assets				672.7	(79.8)	592.9
Deferred tax asset, net		(0.8)	(95.8)	1,355.3	0.4	1,259.1
Intercompany receivable				300.0	(300.0)	
Financial guaranty variable interest entities assets, at fair value				3,657.5		3,657.5
Other assets(1)	19.2	3.8	15.2	1,354.5	(161.1)	1,231.6
Total assets	\$ 3,745.3	\$ 2,984.1	\$ 2,282.0	\$ 24,268.9	\$ (13,438.4)	\$ 19,841.9
Liabilities and shareholders equity						
Unearned premium reserves	\$	\$	\$	7,976.5	(1,003.6)	\$ 6,972.9
Loss and LAE reserve				663.9	(89.5)	574.4
Long-term debt		518.4	407.5	127.0		1,052.9
Intercompany payable				300.0	(300.0)	
Credit derivative liabilities		0.2		2,542.5	(79.9)	2,462.8
Financial guaranty variable interest entities liabilities, at fair value				4,368.1		4,368.1

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Other liabilities(2)	11.8	(24.3)	(6.9)	1,023.7	(327.0)	677.3
Total liabilities	11.8	494.3	400.6	17,001.7	(1,800.0)	16,108.4
Total shareholders equity	3,733.5	2,489.8	1,881.4	7,267.2	(11,638.4)	3,733.5
Total liabilities and shareholders equity	\$ 3,745.3	\$ 2,984.1	\$ 2,282.0	\$ 24,268.9	\$ (13,438.4)	\$ 19,841.9

(1) Includes salvage and subrogation recoverable and other assets.

(2) Includes reinsurance balances payable, net, current income tax payable and other liabilities.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2011

(in millions)

(Restated)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Revenues						
Net earned premiums	\$	\$	\$	\$ 227.5	\$ 2.5	\$ 230.0
Net investment income			0.1	104.8	(3.8)	101.1
Net realized investment gains (losses)				(5.1)		(5.1)
Net change in fair value of credit derivatives:						
Realized gains and other settlements				(10.8)		(10.8)
Net unrealized gains (losses)				(54.0)		(54.0)
Net change in fair value of credit derivatives				(64.8)		(64.8)
Equity in earnings of subsidiaries	(37.2)	(45.7)	46.6	(52.2)	88.5	
Other income(1)				(144.5)	(0.4)	(144.9)
Total revenues	(37.2)	(45.7)	46.7	65.7	86.8	116.3
Expenses						
Loss and LAE				122.0	1.9	123.9
Amortization of deferred acquisition costs				13.4	(3.9)	9.5
Interest expense		9.9	13.4	5.2	(3.8)	24.7
Other operating expenses	5.4	0.1	0.2	43.1	(0.3)	48.5
Total expenses	5.4	10.0	13.6	183.7	(6.1)	206.6
Income (loss) before income taxes	(42.6)	(55.7)	33.1	(118.0)	92.9	(90.3)
Total provision (benefit) for income taxes		(3.5)	(4.7)	(40.4)	0.9	(47.7)
Net income (loss)	\$ (42.6)	\$ (52.2)	\$ 37.8	\$ (77.6)	\$ 92.0	\$ (42.6)

(1) Includes fair value gain (loss) on CCS, net change in fair value of FG VIEs and other income.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2010

(in millions)

(Restated)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Revenues						
Net earned premiums	\$	\$	\$	\$ 292.9	\$ 4.1	\$ 297.0
Net investment income			0.1	94.6	(3.8)	90.9
Net realized investment gains (losses)				(9.8)	1.4	(8.4)
Net change in fair value of credit derivatives:						
Realized gains and other settlements				38.4		38.4
Net unrealized gains (losses)				35.1		35.1
Net change in fair value of credit derivatives				73.5		73.5
Equity in earnings of subsidiaries	182.6	177.1	152.8	168.9	(681.4)	
Other income(1)				(28.0)	(0.3)	(28.3)
Total revenues	182.6	177.1	152.9	592.1	(680.0)	424.7
Expenses						
Loss and LAE				82.0	3.7	85.7
Amortization of deferred acquisition costs				9.0	(2.1)	6.9
Interest expense		9.8	13.4	5.5	(3.8)	24.9
Other operating expenses(2)	3.5	2.7	0.6	43.9	(0.5)	50.2
Total expenses	3.5	12.5	14.0	140.4	(2.7)	167.7
Income (loss) before income taxes	179.1	164.6	138.9	451.7	(677.3)	257.0
Total provision (benefit) for income taxes		(4.3)	(4.8)	81.5	5.5	77.9
Net income (loss)	\$ 179.1	\$ 168.9	\$ 143.7	\$ 370.2	\$ (682.8)	\$ 179.1

- (1) Includes fair value gain (loss) on CCS, net change in fair value of FG VIEs and other income.

- (2) Includes AGMH acquisition-related expenses and other operating expenses.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2011

(in millions)

(Restated)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Revenues						
Net earned premiums	\$	\$	\$	\$ 478.9	\$ 5.1	\$ 484.0
Net investment income			0.3	204.4	(7.5)	197.2
Net realized investment gains (losses)				(2.3)		(2.3)
Net change in fair value of credit derivatives:						
Realized gains and other settlements				24.6		24.6
Net unrealized gains (losses)				(325.6)		(325.6)
Net change in fair value of credit derivatives				(301.0)		(301.0)
Equity in earnings of subsidiaries	111.8	131.2	339.9	118.2	(701.1)	
Other income(1)				18.9	(1.5)	17.4
Total revenues	111.8	131.2	340.2	517.1	(705.0)	395.3
Expenses						
Loss and LAE				95.2	3.2	98.4
Amortization of deferred acquisition costs				28.2	(11.3)	16.9
Interest expense		19.7	26.8	10.5	(7.5)	49.5
Other operating expenses	13.8	0.3	0.7	92.2	(1.7)	105.3
Total expenses	13.8	20.0	27.5	226.1	(17.3)	270.1
Income (loss) before income taxes	98.0	111.2	312.7	291.0	(687.7)	125.2
Total provision (benefit) for income taxes		(7.0)	(9.5)	40.0	3.7	27.2
Net income (loss)	\$ 98.0	\$ 118.2	\$ 322.2	\$ 251.0	\$ (691.4)	\$ 98.0

(1) Includes fair value gain (loss) on CCS, net change in fair value of FG VIEs and other income.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)