ASSURED GUARANTY LTD
Form 10-K
February 28, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

or

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

For the transition period from to ..

Commission File Number 001-32141

Assured Guaranty Ltd.

(Exact name of Registrant as specified in its charter)

Bermuda	**98-0429991**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

30 Woodbourne Avenue
Hamilton HM 08 Bermuda
(441) 299-9375
(Address, including zip code, and telephone number,
including area code, of Registrant s principal executive office)
None
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 per share	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant as of the close of business on June 30, 2006 was $1,188,474,952 (based upon the closing price of the Registrant s shares of the New York Stock Exchange on that date, which was $25.37). For purposes of this information, the outstanding shares of Common Stock which were owned by all directors and executive officers of the Registrant and by ACE Limited were deemed to be shares of Common Stock held by affiliates.

As of February 22, 2007, 67,637,942 shares of Common Stock, par value $0.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Registrant s definitive proxy statement relating to its Annual General Meeting of Shareholders are incorporated by reference to Part III of this report.

FORWARD-LOOKING STATEMENTS

Some of the statements under Business, Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Form 10-K may include forward looking statements which reflect our current views with respect to future events and financial performance. These statements include forward looking statements both with respect to us specifically and the insurance and reinsurance industries in general. Statements which include the words expect, intend, plan, believe, project, anticipate, may, will, continue, similar words or statements of a future or forward looking nature identify forward looking statements for purposes of the federal securities laws or otherwise.

All forward looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include the following:

- downgrades of the financial strength ratings assigned by the major rating agencies to any of our insurance subsidiaries at any time, which has occurred in the past;
- our inability to execute our business strategy;
- reduction in the amount of reinsurance ceded by one or more of our principal ceding companies;
- contract cancellations;
- developments in the world s financial and capital markets that adversely affect our loss experience, the demand for our products or our investment returns;
- more severe or frequent losses associated with our insurance products;
- changes in regulation or tax laws applicable to us, our subsidiaries or customers;
- governmental actions;
- natural catastrophes;
- dependence on customers;
- decreased demand for our insurance or reinsurance products or increased competition in our markets;
- loss of key personnel;
- technological developments;
- the effects of mergers, acquisitions and divestitures;
- changes in accounting policies or practices (see Part II - Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Critical Accounting Estimates Reserves for losses and loss adjustment expenses , for more information;
- changes in general economic conditions, including interest rates and other factors;
- other risks and uncertainties that have not been identified at this time; and
- management s response to these factors.

The foregoing review of important factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this Form 10-K. We undertake no obligation to update publicly or review any forward looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward looking statements you read in this Form 10-K reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

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PART I

ITEM 1. BUSINESS

Overview

Assured Guaranty Ltd. (hereafter Assured Guaranty, we, us, our or the Company) is a Bermuda based holding company that provides, throu its operating subsidiaries, credit enhancement products to the public finance, structured finance and mortgage markets. Credit enhancement products are financial guaranty or other types of financial support, including credit derivatives, that improve the credit of underlying debt obligations. A derivative is a financial instrument whose characteristics and value depend upon the characteristics and value of an underlying security or commodity. We apply our credit expertise, risk management skills and capital markets experience to develop insurance, reinsurance and derivative products that meet the credit enhancement needs of our customers. We market our products directly and through financial institutions, serving the U.S. and international markets.

Assured Guaranty Ltd. was incorporated in Bermuda in August 2003. We operate through wholly owned subsidiaries including Assured Guaranty US Holdings Inc., Assured Guaranty Re Ltd. (AG Re), and Assured Guaranty Finance Overseas Ltd. (AGFOL). Our principal operating subsidiaries are Assured Guaranty Corp. (AGC) and AG Re.

- Assured Guaranty US Holdings Inc., a Delaware holding company, owns 100% of AG Financial Products Inc., a Delaware corporation, and AGC. AGC, a Maryland-domiciled insurance company, was organized in 1985 and commenced operations in January 1988. It provides insurance and reinsurance of investment-grade financial guaranty exposures and credit default swap transactions. In December 2006, Assured Value Insurance Company, a Maryland domiciled insurance company and former AGC subsidiary, merged into AGC. AGC owns 100% of Assured Guaranty (UK) Ltd., a United Kingdom (UK) incorporated company licensed as a UK insurance company.

- AG Re is incorporated under the laws of Bermuda and is licensed as a Class 3 Insurer and a Long-Term Insurer under the Insurance Act 1978 and related regulations of Bermuda. AG Re owns Assured Guaranty Overseas US Holdings Inc., a Delaware corporation, which owns the entire share capital of a Bermuda reinsurer, Assured Guaranty Re Overseas Ltd. (AGRO). AGRO, in turn, owns Assured Guaranty Mortgage Insurance Company (Assured Guaranty Mortgage), a New York corporation. AG Re and AGRO underwrite financial guaranty and residential mortgage reinsurance. AG Re and AGRO write business as direct reinsurers of third-party primary insurers and as reinsurers/retrocessionaires of certain affiliated companies and also provide portfolio credit default swaps, where the counterparty is usually an investment bank. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more insurance policies that the ceding company has issued.

- AGFOL, based in the UK, is regulated by the Financial Services Authority as an Arranger that markets and sources derivative transactions. AGFOL does not take risk in the transactions it arranges or places, and may not hold funds on behalf of its customers.

Our Operating Segments

Our financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. We primarily conduct our business in the United States, Bermuda and the European community. The following table sets forth our gross written premiums by segment for the periods presented:

Gross Written Premiums By Segment

	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Financial guaranty direct:			
Structured finance	$ 88.8	$ 75.1	$ 74.9
Public finance	100.4	21.1	5.9
Total financial guaranty direct	189.2	96.2	80.8
Financial guaranty reinsurance:			
Structured finance	31.7	35.1	41.4
Public finance	92.2	62.9	118.9
Total financial guaranty reinsurance	123.9	98.0	160.3
Mortgage guaranty	8.4	25.7	24.4
Total financial guaranty gross written premiums	321.6	219.9	265.5
Other	4.1	32.2	(74.6)
Total	$ 325.7	$ 252.1	$ 190.9

Financial Guaranty Direct

Financial guaranty direct insurance provides an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Financial guaranty insurance may be issued to the holders of the insured obligations at the time of issuance of those obligations, or may be issued in the secondary market to holders of public bonds and structured securities. Both issuers of and investors in financial instruments may benefit from financial guaranty insurance. Issuers benefit because the insurance may have the effect of lowering an issuer s cost of borrowing to the extent that the insurance premium is less than the value of the difference between the yield on the insured obligation (which carries the credit rating of the insurer) and the yield on the obligation if sold on the basis of its uninsured credit rating. Financial guaranty insurance also improves the marketability of obligations issued by infrequent or unknown issuers, as well as obligations with complex structures or backed by asset classes new to the market. Investors benefit from increased liquidity in the secondary market, added protection against loss in the event of the obligor s default on its obligation, and reduced exposure to price volatility caused by changes in the credit quality of the underlying issue.

As an alternative to traditional financial guaranty insurance, credit protection relating to a particular security or issuer can be provided through a credit derivative, such as a credit default swap. Under the terms of a credit default swap, the seller of credit protection makes a specified payment to the buyer of credit protection upon the occurrence of one or more specified credit events with respect to a reference obligation or entity. Credit derivatives typically provide protection to a buyer rather than credit enhancement of an issue as in traditional financial guaranty insurance. Credit derivatives may be preferred by some customers because they generally offer ease of execution and standardized terms.

Financial guaranty direct products are generally provided for structured finance and public finance obligations in the U.S. and international markets.

Structured Finance *Structured* finance obligations are generally backed by pools of assets, such as residential mortgage loans, consumer or trade receivables, securities or other assets having an

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ascertainable cash flow or market value, which are generally held by a special purpose issuing entity. Structured finance obligations can be funded or synthetic. Funded structured finance obligations generally have the benefit of one or more forms of credit enhancement, such as over-collateralization and excess cash flow, to cover credit risks associated with the related assets. Synthetic structured finance obligations generally take the form of credit derivatives or credit linked notes that reference a pool of securities or loans, with a defined deductible to cover credit risks associated with the referenced securities or loans.

Public Finance *Public* finance obligations consist primarily of debt obligations issued by or on behalf of states or their political subdivisions (counties, cities, towns and villages, utility districts, public universities and hospitals, public housing and transportation authorities), other public and quasi public entities (including non-U.S. sovereigns and subdivisions thereof), private universities and hospitals, and investor owned utilities. These obligations generally are supported by the taxing authority of the issuer, the issuer s or underlying obligor s ability to collect fees or assessments for certain projects or public services or revenues from operations. This market also includes project finance obligations, as well as other structured obligations supporting infrastructure and other public works projects.

Financial Guaranty Reinsurance

Financial guaranty reinsurance indemnifies a primary insurance company against part of a loss that the latter may sustain under a policy that it has issued. The reinsurer may itself purchase reinsurance protection (retrocessions) from other reinsurers, thereby reducing its own exposure.

Reinsurance agreements take two major forms: treaty and facultative. Treaty reinsurance requires the reinsured to cede, and the reinsurer to assume, specific classes of risk underwritten by the ceding company over a specified period of time, typically one year. Facultative reinsurance is the reinsurance of part of one or more specified policies, and is subject to separate negotiation for each cession.

Financial Guaranty Portfolio

The principal types of obligations covered on a global basis by our financial guaranty direct and our financial guaranty reinsurance businesses are structured finance and public finance obligations. Because both businesses involve similar risks, we analyze and monitor our financial guaranty direct portfolio and our financial guaranty reinsurance portfolio on a unified process and procedure basis. In the tables that follow, our reinsurance par outstanding on treaty business is reported on a one-quarter lag due to the timing of receipt of reports prepared by our ceding companies. Our 2006 reinsurance par outstanding on facultative business is reported on a current quarter basis while 2005 and 2004 are reported on a one-quarter lag. The following table sets forth our financial guaranty net par outstanding by product line:

Net Par Outstanding By Product Line

	As of December 31, 2006	2005	2004
	($ in billions)		
Structured Finance:			
Direct	$ 55.7	$ 33.9	$ 28.4
Reinsurance	10.0	12.9	12.7
Total structured finance	65.7	46.8	41.1
Public Finance:			
Direct	12.1	4.4	3.2
Reinsurance	54.5	51.3	51.3
Total public finance	66.6	55.7	54.5
Total net par outstanding	$ 132.3	$ 102.5	$ 95.6

Structured Finance Obligations *We* insure and reinsure a number of different types of structured finance obligations, including the following:

Collateralized Debt Obligations **These** include securities primarily backed by pooled corporate debt obligations, such as corporate bonds, bank loans or loan participations, asset backed securities, residential and commercial mortgage-backed securities and trust preferred securities. These securities are often issued in tranches, with subordinated tranches providing credit support to the more senior tranches. Our financial guaranty exposures generally are to the more senior tranches of these issues. Prior to 2004 we also wrote equity layer credit protection on CDOs; these exposures are reported in our other segment.

Mortgage-Backed and Home Equity **These** include obligations backed by closed-end first mortgage loans and closed- and open-end second mortgage loans or home equity loans on one-to-four family residential properties, including condominiums and cooperative apartments. The majority of our insured U.S. residential mortgage loan pools tend to be in the sub-prime sector, characterized by lower quality borrowers and higher levels of structural credit protection through subordination and/or excess spread.

Commercial Receivables **These** include obligations backed by commercial mortgages, equipment leases, business loans and trade receivables. Credit support is derived from the cash flows generated by the underlying obligations, as well as property or equipment values as applicable. Additional credit protection for our exposure may be in the form of over-collateralization, excess spread, cash reserves, first loss letters of credit, subordinated securities or a combination of the foregoing. The properties backing commercial real estate backed obligations include hotel properties, office buildings and warehouse properties.

Consumer Receivables **These** include obligations backed by non-mortgage consumer receivables, such as automobile loans and leases, credit card receivables and other consumer receivables. Credit support is generally derived from the cash flows generated by the underlying obligations, as well as property, automobile or equipment values as applicable. Additional credit protection for our exposure may be in the form of over-collateralization, excess spread, cash reserves, first loss letters of credit, subordinated securities or a combination of the foregoing.

Other Structured Finance **Other** structured finance exposures in our portfolio include bonds or other securities backed by assets not generally described in any of the other four categories.

The following table sets forth our structured finance direct and reinsurance gross par written by asset type (stated as a percentage of total structured finance direct and reinsurance gross par) for the periods presented:

Structured Finance Gross Par Written by Asset Type

	Year Ended December 31,					
	2006		**2005**		**2004**	
	($ in billions)					
Collateralized debt obligations	46.5	%	50.0	%	20.9	%
Mortgage-backed and home equity	25.4	%	30.8	%	63.4	%
Commercial receivables	15.8	%	8.2	%	6.5	%
Consumer receivables	4.7	%	2.5	%	5.3	%
Other structured finance	7.6	%	8.5	%	3.9	%
Total	100.0	%	100.0	%	100.0	%
Total structured finance gross par written	$ 35.4		$ 19.1		$ 15.2	

The following table sets forth our structured finance direct and reinsurance net par outstanding by asset type (stated as a percentage of total structured finance direct and reinsurance net par outstanding) as of the dates indicated:

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Structured Finance Net Par Outstanding by Asset Type

	As of December 31, 2006	2005	2004
	($ in billions)		
Collateralized debt obligations	47.3 %	49.2 %	42.0 %
Mortgage-backed and home equity	24.9 %	25.6 %	29.0 %
Commercial receivables	15.3 %	11.5 %	11.7 %
Consumer receivables	4.2 %	5.5 %	8.4 %
Other structured finance	8.3 %	8.2 %	8.9 %
Total	100.0 %	100.0 %	100.0 %
Total structured finance par outstanding	$ 65.7	$ 46.8	$ 41.1

The table below shows our ten largest financial guaranty structured finance direct and reinsurance exposures by revenue source as a percentage of total financial guaranty net par outstanding as of December 31, 2006:

Ten Largest Structured Finance Exposures

	Net Par Outstanding	Percent of Total Net Par Outstanding	Internal Rating(1)
	($ in millions)		
Private-Mortgage Backed Securities	$ 1,501	1.1 %	AAA
Paragon Mortgages (No.13) Plc*	1,376	1.0 %	AAA
Graphite Mortgages Plc 2005-2*	1,238	0.9 %	AAA
Field Point III & IV, Limited*	924	0.7 %	AA-
Structured Finance Corporate Pool	914	0.7 %	AAA
Synthetic CDO IG Corporate	740	0.6 %	AAA
Sandelman Finance 2006-1 Limited*	723	0.5 %	AA
Private CDO	710	0.5 %	AAA
Nemus Funding No. 1 Plc*	701	0.5 %	AAA
Private-CDO	658	0.5 %	AAA
Total of top ten exposures	$ 9,485	7.0 %	

(1) These ratings represent our internal assessment of the underlying credit quality of the insured obligations. Our scale is comparable to that of the nationally recognized rating agencies.

* Public transaction

Public Finance Obligations We insure and reinsure a number of different types of public obligations, including the following:

International Infrastructure These include obligations issued by a variety of entities engaged in the financing of international infrastructure projects, such as roads, airports, ports, social infrastructure, electric, water and gas utilities and other physical assets delivering essential services supported either by long-term concession arrangements with a public sector entity or a regulatory regime. The majority of our international infrastructure business is conducted in the UK.

Investor-Owned Utility Bonds These include obligations primarily backed by investor-owned utilities, first mortgage bond obligations of for-profit electric or water utilities providing retail, industrial and commercial service, and also include sale-leaseback obligation bonds supported by such entities.

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General Obligation Bonds **These** include full faith and credit bonds that are issued by states, their political subdivisions and other municipal issuers, and are supported by the general obligation of the issuer to pay from available funds and by a pledge of the issuer to levy ad valorem taxes in an amount sufficient to provide for the full payment of the bonds.

Tax-Backed Bonds **These** include a variety of obligations that are supported by the issuer from specific and discrete sources of taxation and include tax-backed revenue bonds, general fund obligations and lease revenue bonds. Tax-backed obligations may be secured by a lien on specific pledged tax revenues, such as a gasoline or excise tax, or incrementally from growth in property tax revenue associated with growth in property values. These obligations also include obligations secured by special assessments levied against property owners and often benefit from issuer covenants to enforce collections of such assessments and to foreclose on delinquent properties. Lease revenue bonds typically are general fund obligations of a municipality or other governmental authority that are subject to annual appropriation or abatement; projects financed and subject to such lease payments ordinarily include real estate or equipment serving an essential public purpose. Bonds in this category also include moral obligations of municipalities or governmental authorities.

Healthcare Bonds **These** include obligations of healthcare facilities including community based hospitals and systems. In addition to healthcare facilities, obligors in this category include a small number of health maintenance organizations and long-term care facilities.

Municipal Utility Bonds **These** include the obligations of all forms of municipal utilities, including electric, water and sewer utilities and resource recovery revenue bonds. These utilities may be organized in various forms, including municipal enterprise systems, authorities or joint action agencies.

Transportation Bonds **These** include a wide variety of revenue-supported bonds, such as bonds for airports, ports, tunnels, municipal parking facilities, toll roads and toll bridges.

Higher Education Bonds **These** include obligations secured by revenue collected by either public or private secondary schools, colleges and universities. Such revenue can encompass all of an institution s revenue, including tuition and fees, or in other cases, can be specifically restricted to certain auxiliary sources of revenue.

Housing Revenue Bonds **These** include obligations relating to both single and multi family housing, issued by states and localities, supported by cash flow and, in some cases, insurance from such entities as the Federal Housing Administration.

Other Public Bonds **These** include other debt issued, guaranteed or otherwise supported by U.S. national or local governmental authorities, as well as student loans, revenue bonds, and obligations of some not-for-profit organizations. Also included in this category are international public obligations, including the obligations of sovereign and sub-sovereign non-U.S. issuers, project finance transactions involving projects leased to or supported by payments from non-U.S. governmental or quasi governmental entities, as well as other obligations having international aspects, but which otherwise would fall within the other described categories.

The following table sets forth our public finance direct and reinsurance gross par written by bond type (stated as a percentage of total public finance direct and reinsurance gross par written) for the years presented:

Public Finance Gross Par Written by Asset Type

	Year Ended December 31,					
	2006		2005		2004	
	($ in billions)					
International infrastructure	35.0	%	11.8	%	8.3	%
Investor-owned utilities	19.4	%	3.0	%	3.2	%
General obligation	14.6	%	22.1	%	17.4	%
Tax-backed	13.1	%	26.9	%	22.2	%
Healthcare	8.9	%	2.5	%	15.4	%
Municipal utilities	4.8	%	8.3	%	12.4	%
Transportation	2.4	%	14.4	%	2.4	%
Higher education	1.3	%	4.5	%	2.0	%
Housing	0.2	%	1.2	%	2.4	%
Other public finance	0.3	%	5.3	%	14.3	%
Total	100.0	%	100.0	%	100.0	%
Total public finance gross par written	$ 15.4		$ 7.2		$ 8.2	

The following table sets forth our public finance direct and reinsurance net par outstanding by bond type (stated as a percentage of total public finance direct and reinsurance net par outstanding) as of the dates indicated:

Public Finance Net Par Outstanding by Asset Type

	As of December 31,					
	2006		2005		2004	
	($ in billions)					
General obligation	20.3	%	21.5	%	21.8	%
Tax-backed	18.2	%	19.2	%	18.5	%
Municipal utilities	14.6	%	18.6	%	19.7	%
International infrastructure	12.4	%	6.5	%	2.7	%
Healthcare	9.9	%	10.8	%	11.5	%
Investor-owned utilities	9.6	%	2.6	%	2.4	%
Transportation	9.5	%	11.5	%	10.9	%
Higher education	1.9	%	2.1	%	1.7	%
Housing	1.6	%	2.1	%	2.1	%
Structured municipal	0.9	%	1.5	%	2.5	%
Other public finance	1.1	%	3.6	%	6.2	%
Total	100.0	%	100.0	%	100.0	%
Total public finance net par outstanding	$ 66.6		$ 55.7		$ 54.5	

The table below shows our ten largest financial guaranty public finance direct and reinsurance exposures by revenue source as a percentage of total financial guaranty net par outstanding as of December 31, 2006:

Ten Largest Public Finance Exposures

	Net Par Outstanding	Percent of Total Net Par Outstanding	Internal Rating(1)
	($ in millions)		
Epic II	$ 1,065	0.8 %	AAA
International Infrastructure Transaction Pool	993	0.8 %	AAA
International Infrastructure Transaction Pool	955	0.7 %	AAA
International Infrastructure Transaction Pool	927	0.7 %	AAA
California State General Obligation & Leases	838	0.6 %	A
New York City General Obligation	685	0.5 %	A+
Stichting Profile Securitisation I	677	0.5 %	AAA
Long Island Power Authority	670	0.5 %	A-
New Jersey State General Obligation & Leases	662	0.5 %	AA-
Washington State General Obligation	640	0.5 %	AA
Total of top ten exposures	$ 8,112	6.1 %	

(1) These ratings represent our internal assessment of the underlying credit quality of the insured obligations. Our scale is comparable to that of the nationally recognized rating agencies.

Financial Guaranty Portfolio by Internal Rating

The following table sets forth our financial guaranty portfolio as of December 31, 2006 by internal rating:

Financial Guaranty Portfolio by Internal Rating

Rating Category(1)	Net Par Outstanding ($ in billions)	Percent of Total Net Par Outstanding
AAA	$ 57.0	43.1 %
AA	23.0	17.4 %
A	32.8	24.9 %
BBB	18.2	13.7 %
Below investment grade	1.3	0.9 %
Total	$ 132.3	100.0 %

(1) These ratings represent our internal assessment of the underlying credit quality of the insured obligations. Our scale is comparable to that of the nationally recognized rating agencies.

Financial Guaranty Portfolio by Geographic Area

The following table sets forth the geographic distribution of our financial guaranty portfolio as of December 31, 2006:

Financial Guaranty Portfolio by Geographic Area

	Net Par Outstanding	Percent of Total Net Par Outstanding
	($ in billions)	
United States:		
California	$ 7.6	5.7 %
New York	5.9	4.4 %
Texas	3.2	2.4 %
Illinois	3.0	2.3 %
Florida	2.8	2.1 %
Massachusetts	2.6	2.0 %
Pennsylvania	2.1	1.6 %
Washington	2.0	1.5 %
New Jersey	2.0	1.5 %
Puerto Rico	1.7	1.3 %
Other states	19.4	14.7 %
Mortgage and structured (multiple states)	51.6	39.0 %
Total U.S.	103.9	78.5 %
International	28.4	21.5 %
Total	$ 132.3	100.0 %

Financial Guaranty Portfolio by Issue Size

We seek broad coverage of the market by insuring and reinsuring small and large issues alike. The following table sets forth the distribution of our portfolio as of December 31, 2006 by original size of our exposure:

Financial Guaranty Portfolio by Issue Size

Original Par Amount Per Issue	Number of Issues	Percent of Total Number of Issues	Net Par Outstanding	% of Total Net Par Outstanding
	($ in billions)			
Less than $10.0 million	7,690	73.9 %	$ 7.4	5.6 %
$10.0 through $24.9 million	1,100	10.6 %	11.7	8.9 %
$25.0 through $49.9 million	610	5.9 %	14.5	10.9 %
$50.0 million and above	1,001	9.6 %	98.7	74.6 %
Total	10,401	100.0 %	$ 132.3	100.0 %

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Financial Guaranty Portfolio by Source

The following table sets forth our financial guaranty portfolio for and as of the year ended December 31, 2006 by source:

Financial Guaranty Portfolio by Source

	Gross Par Written	Gross Par In Force
	($ in billions)	
Direct	$ 41.7	$ 68.4
Reinsurance:		
Financial Security Assurance Inc	3.9	27.9
Ambac Assurance Corporation	1.9	12.1
Financial Guaranty Insurance Company	2.4	10.5
MBIA Insurance Corporation		12.2
Other ceding companies	0.9	2.2
Total	$ 50.9	$ 133.3

Mortgage Guaranty Insurance/Reinsurance

Mortgage guaranty insurance is a specialized class of credit insurance that provides protection to mortgage lending institutions against the default of borrowers on mortgage loans that, at the time of the advance, had a loan-to-value (LTV) in excess of a specified ratio. In the United States, governmental agencies and private mortgage guaranty insurance compete in this market, while some lending institutions choose to self insure against the risk of loss on high LTV mortgage loans.

Reinsurance in the mortgage guaranty insurance industry is used to increase the insurance capacity of the ceding company, to assist the ceding company in meeting applicable regulatory and rating agency requirements, to augment the financial strength of the ceding company, and to manage the ceding company s risk profile.

The U.S. private mortgage guaranty insurance industry, composed of only monoline insurance companies as required by law, provides two basic types of coverage: primary insurance, which protects lenders against default on individual residential mortgage loans by covering losses on such loans to a stated percentage, and pool insurance, which protects lenders against loss on an underlying pool of individual mortgages by covering the full amount of the loss (less the proceeds from any applicable primary coverage) on individual residential mortgage loans in the pool, with an aggregate limit usually expressed as a percentage of the initial loan balances in the pool. Primary and pool insurance are used to facilitate the sale of mortgage loans in the secondary mortgage market, principally to the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Fannie Mae and Freddie Mac provide indirect funding for approximately half of all mortgage loans originated in the United States. Fannie Mae and Freddie Mac are prohibited by their charters from purchasing mortgage loans with LTV s of greater than 80% unless the loans are insured by a designated mortgage guaranty insurer or some other form of credit enhancement is provided. In addition, pool insurance is often used to provide credit support for mortgage-backed securities and other secondary mortgage market transactions.

Mortgage guaranty reinsurance comprises the bulk of our in force mortgage business. We have provided reinsurance of primary mortgage insurance and pool insurance in the United States on a quota share and excess of loss basis. Quota share reinsurance describes all forms of reinsurance in which the reinsurer shares in a proportional part of the original premiums and losses of the business ceded by the primary company (subject to a ceding commission). Excess of loss reinsurance refers to reinsurance which indemnifies the ceding company for that portion of the loss that exceeds an agreed upon retention. There has been a decrease in demand for our quota share mortgage guaranty reinsurance products over the last five years, as primary mortgage insurers have expanded their capital bases.

We have been a leading provider of excess of loss reinsurance to lender captives and third party insurers in the United Kingdom. There is not a consistent demand for mortgage insurance guaranty (MIG) reinsurance in the United Kingdom although business opportunities may arise from time to time. We have entered into multi year reinsurance arrangements with several lenders and third party insurers.

We have also participated in the mortgage reinsurance markets in Ireland, Hong Kong and Australia. We have participated in these markets on an excess of loss basis with high attachment points and believe that our risk of loss on these transactions is remote.

The mortgage guaranty segment has a decreasing portfolio and is opportunistic with limited possibilities for new business due to our change in business strategy and the overall market for mortgage insurance. New business in this segment will be generated at irregular intervals.

Mortgage Portfolio

The following table sets forth our mortgage insurance and reinsurance risk in force by geographic region as of December 31, 2006:

Mortgage Guaranty Risk In Force By Geographic Region

	Risk In Force ($ in millions)		Percent	
United Kingdom	$	1,300.1	71.4	%
Ireland		395.2	21.7	%
United States		98.3	5.4	%
Australia		28.2	1.5	%
Total	$	1,821.8	100.0	%

The following table sets forth our mortgage guaranty risk in force by treaty type as of December 31, 2006:

Mortgage Guaranty Risk In Force By Treaty Type

	Risk In Force ($ in millions)		Percent	
Excess of loss	$	1,818.5	99.8	%
Quota share		3.3	0.2	%
Total	$	1,821.8	100.0	%

Other

We have participated in several lines of business that are reflected in our historical financial statements, but that we have exited, including equity layer credit protection, trade credit reinsurance, title reinsurance, and auto residual value reinsurance.

Our equity layer credit protection business generally consisted of first loss and mezzanine layer participations in credit derivatives or total rate of return swaps written on portfolios of primarily investment grade corporate credits and highly rated classes of structured securities. We stopped writing new business in this line in early 2003. We have terminated all of these transactions during 2003 and 2004.

Trade credit insurance protects sellers of goods and services from the risk of non-payment of trade receivables. We participated in this market as a reinsurer. We ceased writing new trade credit business during 2004. All of our trade credit business was either retroceded or novated to a subsidiary of ACE Limited (ACE), our former parent, effective April 1, 2004.

We had offered title reinsurance products derived from excess of loss and quota share reinsurance products, on both a treaty and facultative basis, in the United States. ACE Capital Title Reinsurance Company, the company through which we had written U.S. title reinsurance business, was sold to ACE in April 2004.

Auto residual value reinsurance protects automobile lessors and balloon note lenders against the risk that the actual value of an automobile at lease end or loan maturity will be less than the projected residual value of the automobile. We stopped writing new business in this line in 2001. All of this business was either retroceded to a subsidiary of ACE or commuted effective April 1, 2004.

Underwriting

The underwriting, operations and risk management guidelines, policies and procedures of our insurance and reinsurance subsidiaries are tailored to their respective businesses, providing multiple levels of credit review and analysis.

Exposure limits and underwriting criteria are established, as appropriate, for sectors, countries, single risks and in the case of structured finance obligations, servicers. Single risk limits are established in relation to the Company s capital base and are based on our assessment of potential severity of loss as well as other factors. Sector limits are based on our assessment of intra sector correlation, as well as other factors. Country limits are based on long term foreign currency ratings, history of political stability, size and stability of the economy and other factors.

Critical risk factors for proposed public finance exposures include, for example, the credit quality of the issuer, the type of issue, the repayment source, security pledged, the presence of restrictive covenants, and the issue s maturity. Underwriting consideration for exposures include (1) class, reflecting economic and social factors affecting that bond type, including the importance of the proposed project, (2) the financial management of the project and of the issuer, and (3) various legal and administrative factors. In cases where the primary source of repayment is the taxing or rate setting authority of a public entity, such as general obligation bonds, transportation bonds and municipal utility bonds, emphasis is placed on the overall financial strength of the issuer, the economic and demographic characteristics of the taxpayer or ratepayer base and the strength of the legal obligation to repay the debt. In cases of quasi-public entities such as healthcare bonds and private higher education bonds, emphasis is placed on the financial stability of the institution, its competitive position and its management.

Structured finance obligations generally present three distinct forms of risk: (1) asset risk, pertaining to the amount and quality of assets underlying an issue; (2) structural risk, pertaining to the extent to which an issue s legal structure provides protection from loss; and (3) execution risk, which is the risk that poor performance by a servicer contributes to a decline in the cash flow available to the transaction. Each risk is addressed in turn through our underwriting process. Generally, the amount and quality of asset coverage required with respect to a structured finance exposure is dependent upon the historic performance of the subject asset class, or those assets actually underlying the risk proposed to be insured or reinsured. Future performance expectations are developed from this history, taking into account economic, social and political factors affecting that asset class as well as, to the extent feasible, the subject assets themselves. Conclusions are then drawn about the amount of over-collateralization or other credit enhancement necessary in a particular transaction in order to protect investors (and therefore the insurer or reinsurer) against poor asset performance. In addition, structured securities usually are designed to protect investors (and therefore the guarantor) from the bankruptcy or insolvency of the entity which originated the underlying assets, as well as the bankruptcy or insolvency of the servicer of those assets.

For international transactions, an analysis of the country or countries in which the risk resides is performed. Such analysis includes as assessment of the political risk as well as the economic and demographic characteristics of the country or countries. For each transaction, we perform an assessment of the legal regime governing the transaction and the laws affecting the underlying assets supporting the obligations.

Underwriting Procedures

The Risk Oversight Committee of the Board of Directors oversees our credit underwriting process. Subject to limits established by the Risk Oversight Committee, the Portfolio Risk Management Committee implements specific underwriting procedures and limits for the Company. The Portfolio Risk Management Committee also allocates underwriting capacity among the Company s subsidiaries. The Portfolio Risk Management Committee focuses on the measurement and management of credit, market and liquidity risk for the overall company and its main operating subsidiaries. It has established and maintains underwriting limits, policies and procedures and meets at least quarterly to review and set policy. Each insurance, facultative reinsurance and credit derivative transaction after passing an initial assessment intended to consider the desirability of the proposed exposure, is assigned to a team including relevant underwriting and legal personnel. Finance personnel review the proposed exposure for compliance with applicable accounting standards and investment guidelines. The team reviews the structure of the transaction, and the underwriter reviews credit issues pertinent to the particular line of business. In our structured financial guaranty and mortgage guaranty lines, underwriters generally apply computer models to stress cash flows in their assessment of the risk inherent in a particular transaction. For reinsurance transactions, stress model results may be provided by the primary insurer. Stress models may also be developed internally by our underwriting department and reflect both empirical research as well as information gathered from third parties, such as rating agencies, investment banks or servicers. Where warranted to assess a particular credit risk properly, we may perform a due diligence review in connection with a transaction. A due diligence review may include, among other things, meetings with issuer management, review of underwriting and operational procedures, file reviews, and review of financial procedures and computer systems. The structure of a transaction is also scrutinized from a legal perspective by in house and, where appropriate, external counsel, and specialty legal expertise is consulted when our legal staff deems it appropriate.

Upon completion of underwriting analysis, the underwriter prepares a formal credit report that is submitted to an underwriting committee for review. In the vast majority of cases, an oral presentation is made to the committee, followed by questions from committee members and discussion among the committee members and the underwriters. In some cases, additional information may be presented at the meeting or required to be submitted prior to approval. Signatures of committee members are received and any further requirements, such as specific terms or evidence of due diligence, is noted. At the discretion of the Chief Credit Officer, for submissions that are of a relatively low-risk nature or where the transaction is substantially similar to others that have been submitted in the past, a formal meeting may be foregone. A formal submission and signatures of the committee members are required whether a formal meeting is held or not. U.S. direct business is submitted to AGC s Credit Committee, which consists of senior professionals including underwriting officers, the President and Chief Credit Officer and other senior officers of AGC. Certain public finance and residential mortgage-backed securities transactions that meet specific criteria with respect to size, rating and type of risk, may be eligible for an expedited approval process, in which the submission may be approved by two of four designated senior officers of AGC, one of whom must be either the President or Chief Credit Officer. Transactions submitted by Assured Guaranty (UK) Ltd. must be approved by Assured Guaranty (UK) Ltd. s Underwriting Committee, consisting of senior officers of Assured Guaranty (UK) Ltd., and a further to Supervisory Underwriting Committee containing AGC Credit Committee. Transactions submitted for execution in AGRO must be recommended by the AG Intermediary Credit Committee, consisting substantially of senior officers of

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AGC including the President and Chief Credit Officer, and approved by AGRO s underwriting managers in Bermuda. Transactions submitted for approval within AG Re must be approved by the AG Re Underwriting Committee, containing senior officers of AG Re, including the President and Chief Operating Officer. Certain transactions submitted for approval within AG Re that meet specific criteria with respect to size, rating and type of risk, require further approval of one of four designated officers of Assured Guaranty Ltd.

Treaty Underwriting

The procedures for underwriting treaty business differ somewhat from those for facultative reinsurance, as we make a forward commitment to reinsure business from a ceding company for a specified period of time. Although we have the ability to exclude certain classes or categories of risk from a treaty, we have a limited ability to control the individual risks ceded pursuant to the terms of the treaty. As a result, we enter into reinsurance treaties only with ceding companies with proven track records and after extensive underwriting due diligence with respect to the proposed cedant. Prior to entering into a reinsurance treaty, we meet with senior management, underwriters, risk managers, and accounting and systems personnel of the proposed cedant. We evaluate the ceding company s underwriting expertise and experience, capital position, in-force book of business, reserves, cash flow, profitability and financial strength. We actively monitor ceded treaty exposures. Collected data is evaluated regularly to detect ceded risks that are inconsistent with our expectations. If appropriate and permitted under the terms of the treaty, we add exclusions in response to risks identified during our evaluations. Our surveillance department conducts periodic audits of each ceding company. The audits entail review of underwriting and surveillance files, as well as meetings with management. Information gathered during these audits is used to re-evaluate treaties at the time of renewal.

Risk Management

The Risk Oversight and Audit Committee of the Board of Directors oversees our risk management policies and procedures. Within the limits established by the board committees, specific risk policies and limits are set by the Portfolio Risk Management Committee, which includes members of senior management and senior Credit and Surveillance officers. As part of its risk management strategy, the Company may seek to obtain third party reinsurance or retrocessions and may also periodically enter into other arrangements to alleviate all or a portion of this risk.

Our Risk Management and Surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio, including exposures in both the Direct and Reinsurance segments. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and take such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are risk rated, and surveillance personnel are responsible for adjusting those ratings to reflect changes in transaction credit quality. Surveillance personnel are also responsible for managing work-out and loss situations when necessary. For transactions where a loss is considered probable, surveillance personnel make recommendations on case loss reserves to a reserve committee. The reserve committee is made up of the Chief Executive Officer, Chief Financial Officer, Chief Surveillance Officer, General Counsel and Chief Accounting Officer. The reserve committee considers the recommendations of the surveillance personnel when reviewing reserve recommendations of our operating subsidiaries.

Direct Businesses

We conduct surveillance procedures to track risk aggregations and monitor performance of each risk. The review cycle and scope vary based upon transaction type and credit quality. In general, the review process includes the collection and analysis of information from various sources, including trustee and servicer reports, financial statements and reports, general industry or sector news and analyses, and rating agency reports. For Public Finance risks, the surveillance process includes monitoring general economic trends, developments with respect to state and municipal finances, and the financial situation of the issuers. For Structured Finance transactions, the surveillance process can include monitoring transaction performance data and cash flows, compliance with transaction terms and conditions, and evaluation of servicer or collateral manager performance and financial condition. Additionally, the Company uses various quantitative tools and models to assess transaction performance and identify situations where there may have been a change in credit quality. For all transactions, surveillance activities may include discussions with or site visits to issuers, servicers or other parties to a transaction.

Reinsurance Businesses

For transactions in our Reinsurance segment, the primary insurers are responsible for conducting ongoing surveillance, and our surveillance personnel monitor the activities of the primary insurers through a variety of means, such as review of surveillance reports provided by the primary insurers, and meetings and discussions with their analysts. Our surveillance personnel take steps to ensure that the primary insurer is managing risk pursuant to the terms of the applicable reinsurance agreement. To this end, we conduct periodic reviews of ceding companies surveillance activities and capabilities. That process may include the review of the primary insurer s underwriting, surveillance, and claim files for certain transactions. In the event of credit deterioration of a particular exposure, more frequent reviews of the ceding company s risk mitigation activities are conducted. Our surveillance personnel also monitor general news and information, industry trends, and rating agency reports to help focus surveillance activities on sectors or credits of particular concern. For certain exposures, we also will undertake an independent analysis and remodeling of the transaction.

Closely Monitored Credits

Our surveillance department is responsible for monitoring our portfolio of credits and maintains a list of closely monitored credits (CMC). The closely monitored credits are divided into four categories: Category 1 (low priority; fundamentally sound, greater than normal risk); Category 2 (medium priority; weakening credit profile, may result in loss); Category 3 (high priority; claim/default probable, case reserve established); Category 4 (claim paid, case reserve established for future payments). The closely monitored credits include all below investment grade (BIG) exposures where there is a material amount of exposure (generally greater than $10.0 million) or a material risk of the Company incurring a loss greater than $0.5 million. The closely monitored credits also include investment grade (IG) risks where credit quality is deteriorating and where, in the view of the Company, there is significant potential that the risk quality will fall below investment grade. As of December 31, 2006, the closely monitored credits include approximately 97% of our BIG exposure, and the remaining BIG exposure of $34.4 million is distributed across 68 different credits. Other than those excluded BIG credits, credits that are not included in the closely monitored credit list are categorized as fundamentally sound risks. The following table provides financial guaranty net par outstanding by credit monitoring category as of December 31, 2006 and 2005:

Description:	As of December 31, 2006 Net Par Outstanding(3)	% of Net Par Outstanding	# of Credits in Category	As of December 31, 2005 Net Par Outstanding(3)	% of Net Par Outstanding	# of Credits in Category
	($ in millions)					
Fundamentally sound risk(1)	$ 130,944	99.0 %		$ 100,951	98.6 %	
Closely monitored credits:						
Category 1	855	0.6 %	43	872	0.9 %	36
Category 2	318	0.2 %	13	433	0.4 %	22
Category 3	123	0.1 %	18	131	0.1 %	15
Category 4	22		13	23		11
CMC total(2)	1,318	1.0 %	87	1,459	1.4 %	84
Other below investment grade risk	34		68	55		103
Total	$ 132,296	100.0 %		$ 102,465	100.0 %	

(1) As of December 31, 2006, Category 1 contains 6 credits with net par outstanding of $97.8 million and Category 2 contains 3 credits with net par outstanding of $9.7 million in geographic areas affected by Hurricane Katrina. As of December 31, 2005, Category 1 contains 4 credits with net par outstanding of $44.8 million and Category 2 contains 7 credits with net par outstanding of $80.6 million in geographic areas affected by Hurricane Katrina.

(2) Percent total does not add due to rounding.

(3) The Company s 2006 reinsurance par outstanding on facultative business is reported on a current quarter basis while 2005 is reported on a one-quarter lag.

Losses and Reserves

Reserves for losses and loss adjustment expenses for non-derivative transactions in our financial guaranty direct, financial guaranty assumed reinsurance and mortgage guaranty business include case reserves and portfolio reserves. See the Valuation of Derivative Financial Instruments of the Critical Accounting Estimates section for more information on our derivative transactions. Case reserves are established when there is significant credit deterioration on specific insured obligations and the obligations are in default or default is probable, not necessarily upon non-payment of principal or interest by an insured. Case reserves represent the present value of expected future loss payments and loss adjustment expenses (LAE), net of estimated recoveries, but before considering ceded reinsurance. This reserving method is different from case reserves established by traditional property and casualty insurance companies, which establish case reserves upon notification of a claim and establish incurred but not reported (IBNR) reserves for the difference between actuarially estimated ultimate losses and recorded case reserves. Financial guaranty direct and assumed reinsurance case reserves and related salvage and subrogation, if any, are discounted at 6%, which is the approximate taxable equivalent yield on our investment portfolio in all periods presented. When the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment, it records salvage and subrogation as an asset, based on the expected level of recovery. Such amounts are included in the Company s balance sheet within Other assets.

We record portfolio reserves in our financial guaranty direct, financial guaranty assumed reinsurance and mortgage guaranty business. Portfolio reserves are established with respect to the portion of our business for which case reserves have not been established. Portfolio reserves are not established for quota share mortgage insurance contract types, all of which are in run-off; rather Case and IBNR reserves have been established for these contracts.

Portfolio reserves are not established based on a specific event; rather they are calculated by aggregating the portfolio reserve calculated for each individual transaction. Individual transaction reserves are calculated on a quarterly basis by multiplying the par in-force by the product of the ultimate loss and earning factors without regard to discounting. The ultimate loss factor is defined as the frequency of loss multiplied by the severity of loss, where the frequency is defined as the probability of default for each individual issue. The earning factor is inception to date earned premium divided by the estimated ultimate written premium for each transaction. The probability of default is estimated from historical rating agency data and is based on the transaction s credit rating, industry sector and time until maturity. The severity is defined as the complement of historical recovery/salvage rates gathered by the rating agencies of defaulting issues and is based on the industry sector.

Portfolio reserves are recorded gross of reinsurance. We have not ceded any amounts under these reinsurance contracts, as our recorded portfolio reserves have not exceeded our contractual retentions, required by said contracts.

The Company records an incurred loss that is reflected in the statement of operations upon the establishment of portfolio reserves. When we initially record a case reserve, we reclassify the corresponding portfolio reserve already recorded for that credit within the balance sheet. The difference between the initially recorded case reserve and the reclassified portfolio reserve is recorded as a charge in our statement of operations. It would be a remote occurrence when the case reserve is not greater than the reclassified portfolio reserve. Any subsequent change in portfolio reserves or initial case reserves are recorded quarterly as a charge or credit in our statement of operations in the period such estimates change. Due to the inherent uncertainties of estimating loss and LAE reserves, actual experience may differ from the estimates reflected in our consolidated financial statements, and the differences may be material.

We also record IBNR reserves for our mortgage guaranty and other segments. IBNR is an estimate of losses for which the insured event has occurred but the claim has not yet been reported to us. In establishing IBNR, we use traditional actuarial methods to estimate the reporting lag of such claims based on historical experience, claim reviews and information reported by ceding companies. We record IBNR for mortgage guaranty quota-share reinsurance contracts, all of which are in run-off, within our mortgage guaranty segment. We also record IBNR trade credit reinsurance within our other segment. The other segment represents lines of business we have exited or sold prior to the initial public offering (IPO).

For all other mortgage guaranty transactions we record portfolio reserves in a manner consistent with our financial guaranty business. While other mortgage guaranty insurance companies do not record portfolio reserves, rather just case and IBNR reserves, we record portfolio reserves because we write business on an excess of loss basis, while other industry participants write quota share or first layer loss business. We manage and underwrite this business in the same manner as our financial guaranty insurance and reinsurance business because they have similar characteristics as insured obligations of mortgage-backed securities.

FAS No. 60, Accounting and Reporting by Insurance Enterprises (FAS 60) is the authoritative guidance for an insurance enterprise. FAS 60 prescribes differing reserving methodologies depending on whether a contract fits within its definition of a short-duration contract or a long-duration contract. Financial guaranty contracts have elements of long-duration insurance contracts in that they are irrevocable and extend over a period that may exceed 30 years or more, but for regulatory purposes are reported as property and liability insurance, which are normally considered short-duration contracts. The short-duration and long-duration classifications have different methods of accounting for premium revenue and contract liability recognition. Additionally, the accounting for deferred acquisition costs (DAC) could be different under the two methods.

We believe the guidance of FAS 60 does not expressly address the distinctive characteristics of financial guaranty insurance, so we also apply the analogous guidance of Emerging Issues Task Force (EITF) Issue No. 85-20, Recognition of Fees for Guaranteeing a Loan (EITF 85-20), which provides guidance relating to the recognition of fees for guaranteeing a loan, which has similarities to financial guaranty insurance contracts. Under the guidance in EITF 85-20, the guarantor should assess the probability of loss on an ongoing basis to determine if a liability should be recognized under FAS No. 5, Accounting for Contingencies (FAS 5). FAS 5 requires that a loss be recognized where it is probable that one or more future events will occur confirming that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated.

The Company is aware that there are certain differences regarding the measurement of portfolio loss liabilities among companies in the financial guaranty industry. In January and February 2005, the Securities and Exchange Commission (SEC) staff had discussions concerning these differences with a number of industry participants. Based on these discussions, in June 2005 the Financial Accounting Standards Board (FASB) staff decided additional guidance is necessary regarding financial guaranty contracts. When the FASB staff reaches a conclusion on this issue, the Company and the rest of the financial guaranty industry may be required to change some aspects of their loss reserving policies, but the Company cannot currently assess how the FASB or SEC staffs ultimate resolution of this issue will impact our reserving policy or other balances, i.e., premiums and DAC. Until the issue is resolved, the Company intends to continue to apply its existing policy with respect to the establishment of both case and portfolio reserves.

The following table provides a reconciliation of the beginning and ending balances of reserves for losses and LAE:

	For the Years Ended December 31,		
	2006	2005	2004
	(in thousands of U.S. dollars)		
Balance as of January 1	$ 128,421	$ 236,202	$ 544,211
Less reinsurance recoverable	(12,350)	(120,220)	(122,124)
Net balance as of January 1	116,071	115,982	422,087
Transfers to case reserves from portfolio reserves	733	13,747	581
Incurred losses and loss adjustment expenses pertaining to case and IBNR reserves(1):			
Current year	772	10,609	56,666
Prior years	(13,028)	(76,683)	(81,259)
	(12,256)	(66,074)	(24,593)
Transfers to case reserves from portfolio reserves	(733)	(13,747)	(581)
Incurred losses and loss adjustment expenses pertaining to portfolio reserves	5,500	(3,490)	(7,386)
Total incurred losses and loss adjustment expenses	(6,756)	(69,564)	(31,979)
Loss and loss adjustment expenses paid and recovered pertaining to:			
Current year	(20)	(143)	(50,623)
Prior years(1)	355	77,340	(190,960)
	335	77,197	(241,583)
Value of reinsurance business assumed			(14,226)
Change in salvage recoverable	42	(2,497)	(11,919)
Transfer title reserves			(6,620)
Foreign exchange loss (gain) on reserves	19	(5,047)	222
Net balance as of December 31	109,711	116,071	115,982
Plus reinsurance recoverable(2)	10,889	12,350	120,220
Balance as of December 31(2)	$ 120,600	$ 128,421	$ 236,202

(1) The prior year loss recovery of $0.3 million in 2006 is due to $13.5 million of net recoveries from third party litigation settlements. These recoveries were primarily offset by loss payments, of which two of the largest were made on a U.S. Infrastructure transaction and a European Infrastructure transaction. The prior year loss recovery of $77.3 million in 2005 is primarily due to $71.0 million in loss recoveries from a third party litigation settlement agreement, with two parties, relating to a reinsurance claim incurred in 1998 and 1999 as well as a $2.4 million recovery related to the equity layer credit protection business.

(2) Reinsurance recoverables and loss and loss adjustment expense reserves decreased in 2005 compared with 2004 due to: 1) a quota share retrocession agreement that the Company entered into on April 28, 2004 with ACE INA Overseas Insurance Company Ltd. (AIOIC), a subsidiary of ACE, whereby it ceded 100% of any potential losses associated with an action filed by World Omni Financial Corp. (World Omni) against AG Intermediary Inc. and AGRO, subsidiaries of the Company, for a premium of $32.2 million. The matter was settled on December 15, 2005 between AIOIC and World Omni. Upon settlement, the Company released $54.2 million of reinsurance recoverables and loss and loss adjustment expense reserves, representing its entire obligation to World Omni, and 2) $53.3 million of released reinsurance recoverables and loss and loss adjustment expense reserves, due to the run-off and novation of our trade credit business, which is included in our other segment.

Investments

Our principal objectives in managing our investment portfolio are: (1) to preserve our subsidiaries financial strength ratings; (2) to maximize total after-tax net investment income while generating a competitive total rate of return; (3) to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; (4) to manage investment risk within the context of the underlying portfolio of insurance risk; and (5) to meet applicable regulatory requirements.

We have a formal review process for all securities in our investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include: (1) securities whose market values have declined by 20% or more below amortized cost for a continuous period of at least six months; (2) recent credit downgrades of the applicable security or the issuer by rating agencies; (3) the financial condition of the applicable issuer; (4) whether scheduled interest payments are past due; and (5) whether we have the ability and intent to hold the security for a sufficient period of time to allow for anticipated recoveries in fair value. If we believe a decline in the value of a particular investment is temporary, we record the decline as an unrealized loss in accumulated other comprehensive income in shareholders equity on our consolidated balance sheets. If we believe the decline is other than temporary, we write down the carrying value of the investment and record a loss on our statements of operations. Our assessment of a decline in value includes management s current judgment of the factors noted above. If that judgment changes in the future, we may ultimately record a loss after having originally concluded that the decline in value was temporary.

As of December 31, 2006, we had no below investment grade securities or non-rated securities in our investment portfolio. For additional information regarding our investments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Investment Portfolio.

Prior to January 1, 2005 we had retained Lazard Freres Asset Management and Hyperion Capital Management, Inc. to manage our investment portfolio. As of January 1, 2005 this function has been placed with BlackRock Financial Management, Inc. Our investment managers have discretionary authority over our investment portfolio within the limits of our investment guidelines. We compensate each of these managers based upon a fixed percentage of the market value of our portfolio. During the years ended December 31, 2006, 2005 and 2004, we paid aggregate investment management fees of $1.8 million, $1.7 million and $1.8 million, respectively, to these managers.

Competition

Our principal competitors in the financial guaranty direct market are Ambac Assurance Corporation, Financial Guaranty Insurance Company, Financial Security Assurance Inc., MBIA Insurance Corporation, XL Capital Assurance Inc. and CDC IXIS Financial Guaranty, all of which have AAA , AAA and Aaa ratings from Standard & Poor s Inc., a Division of The McGraw-Hill Companies, Inc., Fitch Ratings and Moody s Investors Service. Banks, smaller and lower-rated financial guaranty insurance companies and multiline insurers and reinsurers also participate in the broader credit enhancement market. The principal competitive factors are: (1) premium rates; (2) conditions precedent to the issuance of a policy related to the structure and security features of a proposed bond issue; (3) the financial strength ratings of the guarantor; and (4) the quality of service and execution provided to issuers, investors and other clients of the issuer. Financial guaranty insurance also competes domestically and internationally with other forms of credit enhancement, including the use of senior and subordinated tranches of a proposed structured finance obligation and/or overcollateralization or cash collateral accounts, as well as more traditional forms of credit support.

Our principal competitors in the financial guaranty reinsurance market are Radian Reinsurance Inc., RAM Reinsurance Company Ltd., XL Financial Assurance Ltd., Channel Reinsurance Ltd. and BluePoint

Re Ltd. Competition in the financial guaranty reinsurance business is based upon many factors, including overall financial strength, pricing, service and evaluation of claims paying ability by the major rating agencies.

The U.S. private mortgage insurance industry consists of eight active mortgage guaranty insurers: CMG Mortgage Insurance Company, Genworth Mortgage Insurance Corporation, Mortgage Guaranty Insurance Company, PMI Mortgage Insurance Co., Radian Guaranty Inc., Republic Mortgage Insurance Company, Triad Mortgage Insurance Company and United Guaranty Residential Insurance Company. These mortgage guaranty insurers do not use a material amount of third party reinsurance. They do, however, employ various risk sharing arrangements with their affiliated companies. In addition, lender owned captive companies are a significant source of reinsurance capacity for the industry. In the United Kingdom, we face competition from affiliates of U.S. private mortgage guaranty insurers, which primarily write excess of loss reinsurance for MIG captives.

Regulation

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Reinsurers are generally subject to less direct regulation than primary insurers. We are subject to regulation under applicable statutes in the United States, the United Kingdom and Bermuda.

United States

Assured Guaranty Ltd. has two operating insurance subsidiaries domiciled in the United States, which we refer to collectively as the Assured Guaranty U.S. Subsidiaries.

AGC is a Maryland domiciled insurance company licensed to write financial guaranty insurance and reinsurance (and in some states casualty, surety and other lines) in 49 U.S. states, the District of Columbia and Puerto Rico. AGC currently has a license application pending in Wisconsin. AGC is also licensed as a Class 3 insurer in Bermuda.

Assured Guaranty Mortgage, a wholly-owned subsidiary of AGRO, is a New York corporation licensed as a mortgage guaranty insurer in the State of New York and in the District of Columbia and thereby is authorized solely to transact the business of mortgage guaranty insurance and reinsurance. Assured Guaranty Mortgage is an approved or accredited reinsurer in the States of California, Illinois and Wisconsin.

Insurance Holding Company Regulation

Assured Guaranty and the Assured Guaranty U.S. Subsidiaries are subject to the insurance holding company laws of Maryland and New York. These laws generally require each of the Assured Guaranty U.S. Subsidiaries to register with its respective domestic state insurance department and annually to furnish financial and other information about the operations of companies within their holding company system. Generally, all transactions among companies in the holding company system to which any of the Assured Guaranty U.S. Subsidiaries is a party (including sales, loans, reinsurance agreements and service agreements) must be fair and, if material or of a specified category, such as service agreements, require prior notice and approval or non-disapproval by the insurance department where the applicable subsidiary is domiciled.

Change of Control

Before a person can acquire control of a U.S. domestic insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the domestic insurer. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity and management of the applicant s Board of Directors and executive officers, the acquirer s plans for the management of the applicant s Board of Directors and executive officers, the acquirer s plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control involving us that some or all of our stockholders might consider to be desirable, including in particular unsolicited transactions.

State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including licensing these companies to transact business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, regulating investments and dividends, and, in certain instances, approving policy forms and related materials and approving premium rates. State insurance laws and regulations require the Assured Guaranty U.S. Subsidiaries to file financial statements with insurance departments everywhere they are licensed, authorized or accredited to conduct insurance business, and their operations are subject to examination by those departments at any time. The Assured Guaranty U.S. Subsidiaries prepare statutory financial statements in accordance with Statutory Accounting Practices, or SAP, and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Market conduct examinations by regulators other than the domestic regulator are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners.

As stated above, financial examinations are conducted by the state of domicile of the insurer. The Maryland Insurance Administration conducts a periodic examination of insurance companies domiciled in Maryland every five years. During 2003, the Maryland Insurance Administration completed its field work in connection with a five-year examination of Assured Guaranty for the period from 1997 through 2001. The Report on Financial Examination, issued by the Maryland Insurance Administration on October 10, 2003 in connection with such examination, did not contain any materially adverse findings. The New York Insurance Department, the regulatory authority of the domiciliary jurisdiction of Assured Guaranty Mortgage, conducts a periodic examination of insurance companies domiciled in New York, also at five-year intervals. During 2003, the New York Insurance Department completed its field work in connection with its examination of Assured Guaranty Mortgage for the period from 1997 though 2002. The report on the examination, issued July 11, 2003 by the New York Insurance Department, does not contain any materially adverse findings. We anticipate that field work for the 2002-2006 examination period will begin in 2007.

The terms and conditions of reinsurance agreements generally are not subject to regulation by any U.S. state insurance department with respect to rates. As a practical matter, however, the rates charged by primary insurers do have an effect on the rates that can be charged by reinsurers.

State Dividend Limitations

Maryland. One of the primary sources of cash for the payment of debt service and dividends by Assured Guaranty is the receipt of dividends from AGC. If a dividend or distribution is an extraordinary dividend, it must be reported to, and approved by, the Insurance Commissioner prior to payment. An extraordinary dividend is defined to be any dividend or distribution to stockholders, such as Assured Guaranty US Holdings Inc., which together with dividends paid during the preceding twelve months exceeds the lesser of 10% of an insurance company s policyholders surplus at the preceding December 31 or 100% of AGC s adjusted net investment income during that period. Further, an insurer may not pay any dividend or make any distribution to its shareholders unless the insurer notifies the Insurance Commissioner of the proposed payment within five business days following declaration and at least ten days before payment. The Insurance Commissioner may declare that such dividend not be paid if the Commissioner finds that the insurer s policyholders surplus would be inadequate after payment of the dividend or could lead the insurer to a hazardous financial condition. AGC declared and paid dividends of $13.8 million and $4.3 million during 2006 and 2005, respectively, to Assured Guaranty US Holdings Inc. As of December 31, 2006, the maximum amount available during 2007 for the payment of dividends by AGC which would not be characterized as extraordinary dividends was approximately $28.6 million.

New York. Under the New York Insurance Law, Assured Guaranty Mortgage may declare or pay any dividend only out of earned surplus, which is defined as that portion of the company s surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital, capital surplus or contingency reserves, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. Additionally, no dividend may be declared or distributed in an amount which, together with all dividends declared or distributed by it during the preceding twelve months, exceeds the lesser of 10% of Assured Guaranty Mortgage s statutory surplus as shown on its latest statutory financial statement on file with the New York Superintendent of Insurance, or 100% of Assured Guaranty Mortgage s adjusted net investment income during that period, unless, upon prior application, the Superintendent approves a greater dividend or distribution after finding that the company will retain sufficient surplus to support its obligations and writings. Assured Guaranty Mortgage did not declare or pay dividends during 2006. As of December 31, 2006, Assured Guaranty Mortgage had negative unassigned funds and therefore cannot pay dividends during 2006.

Contingency Reserves

In accordance with Maryland insurance law and regulations, AGC maintains a statutory contingency reserve for the protection of policyholders against the effect of adverse economic cycles. The contingency reserve is maintained for each obligation and is equal to the greater of 50% of the premiums written or a percentage of principal guaranteed (which percentage varies from 0.55% to 2.5% depending on the nature of the asset). The contingency reserve is put up over a period of either 15 or 20 years, depending on the nature of the obligation, and then taken down over the same period of time. The contingency reserve may be maintained net of reinsurance. AGC s contingency reserve as of December 31, 2006 was in compliance with these insurance laws and regulations.

Under the New York Insurance Law, Assured Guaranty Mortgage must establish a contingency reserve to protect policyholders against the effect of adverse economic cycles. This reserve is established out of net premiums (gross premiums less premiums returned to policyholders) remaining after the statutory unearned premium reserve is established. Contributions to the contingency reserve must equal 50% of remaining earned premiums and, except as otherwise approved by the Superintendent of Insurance, must be maintained in the contingency reserve for a period of 120 months. Reinsurers are required to establish a contingency reserve equal to their proportionate share of the reserve established by the ceding company. Assured Guaranty Mortgage s contingency reserve as of December 31, 2006 was in compliance with these insurance laws and regulations.

Risk-to-Capital Requirements

Under the New York Insurance Law, Assured Guaranty Mortgage s total liability, net of applicable reinsurance, under its aggregate insurance policies may not exceed 25 times its total policyholders surplus, commonly known as the risk-to-capital requirement. As of December 31, 2006, the consolidated risk-to-capital ratio for Assured Guaranty Mortgage was below the limit.

Investments

The Assured Guaranty U.S. Subsidiaries are subject to laws and regulations that require diversification of their investment portfolio and limit the amount of investments in certain asset categories, such as below investment grade fixed maturity securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, would require divestiture of such non-qualifying investments. We believe that the investments made by the Assured Guaranty U.S. Subsidiaries complied with such regulations as of December 31, 2006. In addition, any investment must be approved by the insurance company s Board of Directors or a committee thereof that is responsible for supervising or making such investment.

Operations of Our Non-U.S. Insurance Subsidiaries

The insurance laws of each state of the United States and of many other countries regulate or prohibit the sale of insurance and reinsurance within their jurisdictions by unlicensed or non-accredited insurers and reinsurers. Assured Guaranty (UK) Ltd., AG Re and AGRO are not admitted to do business in the United States. We do not intend that Assured Guaranty (UK) Ltd., AG Re or AGRO will maintain offices or solicit, advertise, settle claims or conduct other insurance activities in any jurisdiction in the United States where the conduct of such activities would require it to be admitted or authorized.

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers business operations are affected by regulatory requirements in various states of the United States governing credit for reinsurance which are imposed on their ceding companies. In general, a ceding company which obtains reinsurance from a reinsurer that is licensed, accredited or approved by the ceding company s state of domicile is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company s liability for unearned premiums (which are that portion of premiums written which applies to the unexpired portion of the policy period), loss reserves and loss expense reserves ceded to the reinsurer. The great majority of states, however, permit a credit on the statutory financial statement of a ceding insurer for reinsurance obtained from a non-licensed or non-accredited reinsurer to the extent that the reinsurer secures its reinsurance obligations to the ceding insurer by providing a letter of credit, trust fund or other acceptable security arrangement. A few states do not allow credit for reinsurance ceded to non-licensed reinsurers except in certain limited circumstances and others impose additional requirements that make it difficult to become accredited.

Bermuda

Each of AG Re and AGRO, our Bermuda Subsidiaries, is an insurance company registered and licensed as a Class 3 insurer and a long term insurer under the Insurance Act 1978 of Bermuda. AGC is permitted under a revocable permit granted under the Companies Act 1981 of Bermuda (the Companies Act) to engage in and carry on trade and business limited to engaging in certain non U.S. financial guaranty insurance and reinsurance outside Bermuda from a principal place of business in

Bermuda, subject to compliance with the conditions attached to the permit and relevant provisions of the Companies Act (including having a Bermuda principal representative for the Companies Act purposes, restrictions on activities in Bermuda, publication and filing of prospectuses on public offerings of securities, registration of charges against its assets and certain winding up provisions). AGC is also licensed as a Class 3 insurer in Bermuda. The Insurance Act 1978 of Bermuda, amendments thereto and related regulations (collectively, the Insurance Act) impose on insurance companies certain solvency and liquidity standards; certain restrictions on the declaration and payment of dividends and distributions; certain restrictions on the reduction of statutory capital; certain restrictions on the winding up of long term insurers; and certain auditing and reporting requirements and also the need to have a principal representative and a principal office (as understood under the Insurance Act) in Bermuda. The Insurance Act grants to the Bermuda Monetary Authority the power to cancel insurance licenses, supervise, investigate and intervene in the affairs of insurance companies and in certain circumstances share information with foreign regulators. Class 3 insurers are authorized to carry on general insurance business (as understood under the Insurance Act), subject to conditions attached to the license and to compliance with minimum capital and surplus requirements, solvency margin, liquidity ratio and other requirements imposed by the Insurance Act. Long term insurers are permitted to carry on long term business (as understood under the Insurance Act) subject to conditions attached to the license and to similar compliance requirements and the requirement to maintain its long term business fund (a segregated fund). Each of AG Re and AGRO is required annually to file statutorily mandated financial statements and returns, audited by an auditor approved by the Bermuda Monetary Authority (no approved auditor of an insurer may have an interest in that insurer, other than as an insured, and no officer, servant or agent of an insurer shall be eligible for appointment as an insurer s approved auditor), together with an annual loss reserve opinion of a Bermuda Monetary Authority approved loss reserve specialist and the required actuary s certificate with respect to the long term business. AGC has an exemption from such filings, subject to certain conditions.

In addition, pursuant to provisions under the Insurance Act, any person who becomes a holder of at least 10%, 20%, 33% or 50% of our common shares must notify the Bermuda Monetary Authority in writing within 45 days of becoming such a holder or 30 days from the date they have knowledge of having become such a holder, whichever is later. The Bermuda Monetary Authority has the power to object to a person holding 10% or more of our common shares if it appears to the Authority that the person is not fit and proper to be such a holder. In such a case, the Bermuda Monetary may require the holder to reduce their shareholding in us and may direct, among other things, that the voting rights attaching to their common shares shall not be exercisable. A person that does not comply with such a notice or direction from the Bermuda Monetary Authority will be guilty of an offence.

Under a condition to its permit granted under the Companies Act, AGC must inform the Minister of Finance of any change in its beneficial ownership within 14 days of the occurrence of such change.

Restrictions on Dividends and Distributions

The Insurance Act limits the declaration and payment of dividends and other distributions by AG Re, AGRO and AGC.

Under the Insurance Act:

- The minimum share capital must be always issued and outstanding and cannot be reduced (for a company registered both as a Class 3 insurer and a long-term insurer the minimum share capital is US$370,000 and for a company registered as a Class 3 insurer only, the minimum share capital is US$120,000).

- With respect to the distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital, certain restrictions under the Insurance Act 1978 may apply if the proposal is to reduce its total statutory capital. Before reducing its total statutory capital by 15% or more of the insurer s total statutory capital as set out in its previous year s financial statements, a Class 3 insurer or a long-term insurer must obtain the prior approval of the Bermuda Monetary Authority.

- With respect to the declaration and payment of dividends:

(a) the insurer may not declare or pay any dividends during any financial year if it would cause the insurer to fail the applicable solvency margin or liquidity ratio (the relevant margins);

(b) if the insurer failed to meet any of its relevant margins on the last day of any financial year the insurer may not, without the prior approval of the Bermuda Monetary Authority, declare or pay any dividends during the next financial year; and

(c) a Class 3 insurer which at any time fails to meet its general business solvency margin may not declare or pay any dividend until the failure is rectified, and also in such circumstances the Class 3 insurer must report, within 30 days after becoming aware of its failure or having reason to believe that such failure has occurred, to the Bermuda Monetary Authority giving particulars of the circumstances leading to the failure and the manner and time in which the Class 3 insurer intends to rectify the failure.

- A long-term insurer may not:

(a) use the funds allocated to its long-term business fund, directly or indirectly, for any purpose other than a purpose of its long-term business except in so far as such payment can be made out of any surplus certified by the insurer s approved actuary to be available for distribution otherwise than to policyholders; and

(b) declare or pay a dividend to any person other than a policyholder unless the value of the assets of its long-term business fund, as certified by the insurer s approved actuary, exceeds the extent (as so certified) of the liabilities of the insurer s long-term business, and the amount of any such dividend shall not exceed the aggregate of (1) that excess; and (2) any other funds properly available for the payment of dividends being funds arising out of the business of the insurer other than its long-term business.

Under the Companies Act, a Bermuda company (such as Assured Guaranty, AG Re and AGRO) may only declare and pay a dividend or make a distribution out of contributed surplus (as understood under the Companies Act) if there are reasonable grounds for believing that the company is and after the payment will be able to meet and pay its liabilities as they become due and the realizable value of the company s assets will not be less than the aggregate of its liabilities and its issued share capital and share premium accounts. The Companies Act also regulates and restricts the reduction and return of capital and paid in share premium, including the repurchase of shares and imposes minimum issued and outstanding share capital requirements.

Certain Other Bermuda Law Considerations

Although Assured Guaranty Ltd. is incorporated in Bermuda, it is classified as a non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority. Pursuant to its non-resident status, Assured Guaranty may engage in transactions in currencies other than Bermuda dollars and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to U.S. residents who are holders of its common shares.

Under Bermuda law, exempted companies are companies formed for the purpose of conducting business outside Bermuda from a principal place of business in Bermuda. As an exempted company, Assured Guaranty (as well as each of AG Re and AGRO) may not, without the express authorization of the Bermuda legislature or under a license or consent granted by the Minister of Finance, participate in certain business and other transactions, including: (1) the acquisition or holding of land in Bermuda (except that held by way of lease or tenancy agreement which is required for its business and held for a term not exceeding 50 years, or which is used to provide accommodation or recreational facilities for its officers and employees and held with the consent of the Bermuda Minister of Finance, for a term not exceeding 21 years), (2) the taking of mortgages on land in Bermuda to secure a principal amount in excess of $50,000 unless the Minister of Finance consents to a higher amount, and (3) the carrying on of business of any kind or type for which it is not duly licensed in Bermuda, except in certain limited circumstances, such as doing business with another exempted undertaking in furtherance of Assured Guaranty s business carried on outside Bermuda.

The Bermuda government actively encourages foreign investment in exempted entities like Assured Guaranty that are based in Bermuda, but which do not operate in competition with local businesses. Assured Guaranty is not currently subject to taxes computed on profits or income or computed on any capital asset, gain or appreciation. Bermuda companies and permit companies, such as AGC, pay, as applicable, annual government fees, business fees, payroll tax and other taxes and duties. See Material Tax Considerations Taxation of Assured Guaranty and Subsidiaries Bermuda.

Special considerations apply to our Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates or working resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate is available who meets the minimum standards for the position. The Bermuda government has a policy that places a six-year term limit on individuals with work permits, subject to specified exemptions for persons deemed to be key employees. Currently, all of our Bermuda based professional employees who require work permits have been granted work permits by the Bermuda government. This includes the following key employees: Messrs. Frederico, Mills, Michener, Albert, Pickering and Bailenson and Ms. Purtill each of whom has received a work permit.

United Kingdom

General

Since December 1, 2001, the regulation of the financial services industry in the United Kingdom has been consolidated under the Financial Services Authority (FSA UK). In addition, the regulatory regime in the United Kingdom must comply with certain European Union (EU) directives binding on all EU member states.

The FSA UK is the single statutory regulator responsible for regulating the financial services industry in the UK, having the authority to oversee the carrying on of regulated activities (including deposit taking, insurance and reinsurance, investment management and most other financial services), with the purpose of maintaining confidence in the UK financial system, providing public understanding of the system, securing the proper degree of protection for consumers and helping to reduce financial crime. It is a criminal offense for any person to carry on a regulated activity in the UK unless that person is authorized by the FSA UK and has been granted permission to carry on that regulated activity, or otherwise falls under an exemption to such regulation.

Insurance business in the United Kingdom falls into two main categories: long-term insurance (which is primarily investment related) and general insurance. It is not possible for a new insurance company to be authorized in both long-term and general insurance business. These two categories are both divided into classes (for example: permanent health and pension fund management are two classes of long-term insurance; damage to property and motor vehicle liability are two classes of general insurance). Under the Financial Services and Markets Act 2000 (FSMA), effecting or carrying out contracts of insurance, within a class of general or long-term insurance, by way of business in the UK, constitutes a regulated activity requiring authorization. An authorized insurance company must have permission for each class of insurance business it intends to write.

Assured Guaranty (UK) Ltd. is authorized to effect and carry out certain classes of non-life insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). This scope of permission is sufficient to enable Assured Guaranty (UK) Ltd. to effect and carry out financial guaranty insurance and reinsurance. The insurance and reinsurance businesses of Assured Guaranty (UK) Ltd. are subject to close supervision by the FSA UK. In addition to its requirements for senior management arrangements, systems and controls of insurance and reinsurance companies under its jurisdiction, the FSA UK is placing an increased emphasis on risk identification and management in relation to the prudential regulation of insurance and reinsurance business in the United Kingdom. There have been a number of recent changes to the FSA UK s rules that will affect insurance and reinsurance companies authorized in the UK. For example, the FSA UK has introduced rules on the sale of general insurance, known as insurance mediation, and has introduced the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Insurers (INSPRU) which includes measures such as risk-based capital adequacy rules, including individual capital assessments which are intended to align capital requirements with the risk profile of each insurance company and proposals aimed at ensuring adequate diversification of an insurer s or reinsurer s exposures to any credit risks of its reinsurers. Assured Guaranty (UK) Ltd. has calculated its minimum required capital according to the FSA s new individual capital adequacy criteria and is in compliance.

As a consequence of the new insurance mediation rules, Assured Guaranty (UK) Ltd. now also has permission to arrange and advise on deals in financial guaranty s which it underwrites.

Assured Guaranty Finance Overseas, Ltd. is not authorized as an insurer. It is authorized by the FSA UK as a Category D company to carry out designated investment business activities in that it may advise on investments (except on pension transfers and pension opt outs) relating to most investment instruments. In addition, it may arrange or bring about transactions in investments and make arrangements with a view to transactions in investments. It should be noted that Assured Guaranty Finance Overseas, Ltd. does not itself take risk in the transactions it arranges or places, and may not hold funds on behalf of its customers.

Supervision

The FSA UK carries out the prudential supervision of insurance companies through a variety of methods, including the collection of information from statistical returns, review of accountants reports, visits to insurance companies and regular formal interviews.

The FSA UK has adopted a risk-based approach to the supervision of insurance companies. Under this approach, the FSA UK periodically performs a formal risk assessment of insurance companies or groups carrying on business in the UK which varies in scope according to the risk profile of the insurer. The FSA UK performs its risk assessment by analyzing information which it receives during the normal course of its supervision, such as regular prudential returns on the financial position of the insurance company, or which it acquires through a series of meetings with senior management of the insurance company. After each risk assessment, the FSA UK will inform the insurer of its views on the insurer s risk profile. This will include details of any remedial action that the FSA UK requires and the likely consequences if this action is not taken.

Solvency Requirements

The Integrated Prudential Sourcebook requires that non-life insurance companies such as Assured Guaranty (UK) Ltd. maintain a margin of solvency at all times in respect of the liabilities of the insurance company, the calculation of which depends on the type and amount of insurance business a company writes. The method of calculation of the solvency margin (known as the minimum capital requirement) is set out in the Prudential Sourcebooks, and for these purposes, the insurer s assets and liabilities are subject to specified valuation rules. The Prudential Sourcebooks also requires that Assured Guaranty (UK) Ltd. calculates and shares with the FSA UK its enhanced capital requirement based on risk-weightings applied to assets held and lines of business written. This enhanced capital requirement is not yet a legally-binding requirement but is required to form the basis of Assured Guaranty (UK) Ltd. s individual capital assessment which is then discussed with the FSA UK. It is currently not expected that the enhanced capital requirement will become legally binding before 2007. Failure to maintain capital at least equal to the higher of the minimum capital requirement and the individual capital assessment is one of the grounds on which the wide powers of intervention conferred upon the FSA UK may be exercised.

To the extent that the amount of premiums for such classes exceed certain specified minimum thresholds, each insurance company writing property, credit and other specified categories of insurance or reinsurance business is required by the Prudential Sourcebooks to maintain an equalization reserve calculated in accordance with the provisions of the Integrated Prudential Sourcebook.

These solvency requirements came into force on January 1, 2005. They may need to be amended in order to implement the European Union s proposed Solvency II directive on risk-based capital but that is not expected to be implemented until 2010 or 2011.

In addition, an insurer (other than a company conducting only reinsurance business) is required to perform and submit to the FSA UK a group capital adequacy return in respect of its ultimate parent and, if different, its ultimate EEA parent (see definition of EEA under Passporting below). The calculation at the level of the ultimate EEA parent is required to show a positive result from December 31, 2006. There is no such requirement in relation to the report at the level of the ultimate parent, although if the report at that level raises concerns the FSA may take regulatory action. Public disclosure of the EEA group calculation is also required. The purpose of this rule is to prevent leveraging of capital arising from involvements in other group insurance firms. Given the current structure of the Company, the main aspects of the Company s capital regime will not apply to Assured Guaranty (UK) Ltd. s ultimate parent, because it is incorporated in Bermuda, nor to the intermediate holding companies, because they are incorporated in the United States, but reporting will be required to the FSA UK up to the ultimate parent.

Further, an insurer is required to report in its annual returns to the FSA UK all material related party transactions (e.g., intragroup reinsurance, whose value is more than 5% of the insurer s general insurance business amount).

Restrictions on Dividend Payments

UK company law prohibits Assured Guaranty (UK) Ltd. from declaring a dividend to its shareholders unless it has profits available for distribution. The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the UK insurance regulatory laws impose no statutory restrictions on a general insurer s ability to declare a dividend, the FSA UK s capital requirements may in practice act as a restriction on dividends.

Reporting Requirements

UK insurance companies must prepare their financial statements under the Companies Act of 1985 (as amended), which requires the filing with Companies House of audited financial statements and related reports. In addition, UK insurance companies are required to file regulatory returns with the FSA UK, which include a revenue account, a profit and loss account and a balance sheet in prescribed forms. Under sections of the Interim Prudential Sourcebook for Insurers (which have remained in force following the Integrated Prudential Sourcebook replacing most of its terms on 1 January 2005), audited regulatory returns must be filed with the FSA UK within two months and 15 days of the financial year end (or three months where the delivery of the return is made electronically).

Supervision of Management

The FSA UK closely supervises the management of insurance companies through the approved persons regime, by which any appointment of persons to perform certain specified controlled functions within a regulated entity must be approved by the FSA UK.

Change of Control

FSMA regulates the acquisition of control of any UK insurance company authorized under FSMA. Any company or individual that (together with its or his associates) directly or indirectly acquires 10% or more of the shares in a UK authorized insurance company or its parent company, or is entitled to exercise or control the exercise of 10% or more of the voting power in such authorized insurance company or its parent company, would be considered to have acquired control for the purposes of the relevant legislation, as would a person who had significant influence over the management of such authorized insurance company or its parent company by virtue of his shareholding or voting power in either.

Under FSMA, any person proposing to acquire control of a UK authorized insurance company must give prior notification to the FSA UK of its intention to do so. The FSA UK then has three months to consider that person s application to acquire control. In considering whether to approve such application, the FSA UK must be satisfied that both the acquirer is a fit and proper person to have control and that the interests of consumers would not be threatened by such acquisition of control. Consumers in this context includes all persons who may use the services of the authorized insurance company. Failure to make the relevant prior application could result in action being taken by the FSA UK.

Intervention and Enforcement

The FSA UK has extensive powers to intervene in the affairs of an authorized person, culminating in the ultimate sanction of the removal of authorization to carry on a regulated activity. FSMA imposes on the FSA UK statutory obligations to monitor compliance with the requirements imposed by FSMA, and to enforce the provisions of FSMA related rules made by the FSA UK such as the Integrated Prudential Sourcebook and those parts of the Interim Prudential Sourcebook for Insurers which remain in force. The FSA UK has power, among other things, to enforce and take disciplinary measures in respect of breaches of both the Integrated Prudential Sourcebook and breaches of the conduct of business rules generally applicable to authorized persons.

The FSA UK also has the power to prosecute criminal offenses arising under FSMA, and to prosecute insider dealing under Part V of the Criminal Justice Act of 1993, and breaches of money laundering regulations. The FSA UK s stated policy is to pursue criminal prosecution in all appropriate cases.

Passporting

EU directives allow Assured Guaranty Finance Overseas, Ltd. and Assured Guaranty (UK) Ltd. to conduct business in EU states other than the United Kingdom in compliance with the scope of permission granted these companies by FSA UK without the necessity of additional licensing or authorization in other EU jurisdictions. This ability to operate in other jurisdictions of the EU on the basis of home state authorization and supervision is sometimes referred to as passporting. Insurers may operate outside their home member state either on a services basis or on an establishment basis. Operating on a services basis means that the company conducts permitted businesses in the host state without having a physical presence there, while operating on an establishment basis means the company has a branch or physical presence in the host state. In both cases, a company remains subject to regulation by its home regulator, and not by local regulatory authorities, although the company nonetheless may have to comply with certain local rules. In addition to EU member states, Norway, Iceland and Liechtenstein (members of the broader European Economic Area or EEA) are jurisdictions in which this passporting framework applies. Assured Guaranty (UK) Ltd. is permitted to operate on a passport basis in various countries throughout the European Union; Assured Guaranty Finance Overseas, Ltd. is permitted to operate on a services basis in Austria, Belgium, Finland, France, Germany, the Republic of Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain and Sweden.

Fees and Levies

Assured Guaranty (UK) Ltd. is subject to FSA UK fees and levies based on Assured Guaranty (UK) Ltd. s gross written premiums. The FSA UK also requires authorized insurers to participate in an investors protection fund, known as the Financial Services Compensation Scheme (the FSCS). The FSCS was established to compensate consumers of financial services, including the buyers of insurance, against failures in the financial services industry. Individual policyholders and small businesses may be compensated by the FSCS when an authorized insurer is unable, or likely to be unable, to satisfy policyholder claims. Assured Guaranty (UK) Ltd. does not expect to write any insurance business that is protected by the FSCS.

Tax Matters

Taxation of Assured Guaranty and Subsidiaries

Bermuda

Under current Bermuda law, there is no Bermuda income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax payable by us. Assured Guaranty, AGC, and the Bermuda Subsidiaries have each obtained from the Minister of Finance under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to Assured Guaranty, AGC or the Bermuda Subsidiaries or to any of their operations or their shares, debentures or other obligations, until March 28, 2016. This assurance is subject to the proviso that it is not to be construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda, or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to any land leased to Assured Guaranty, AGC or the Bermuda Subsidiaries. Assured Guaranty, AGC and the Bermuda Subsidiaries each pay annual Bermuda government fees, and the Bermuda Subsidiaries and AGC pay annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

United States

We have conducted and intend to conduct substantially all of our foreign operations outside the United States and to limit the U.S. contacts of Assured Guaranty and its foreign subsidiaries (except AGRO, which has elected to be taxed as a U.S. corporation) so that they should not be engaged in a trade or business in the United States. A foreign corporation, such as AG Re deemed to be engaged in a trade or business in the United States would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business, unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation may generally be entitled to deductions and credits only if it timely files a U.S. federal income tax return. Assured Guaranty and AG Re have and will continue to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax. The highest marginal federal income tax rates currently are 35% for a corporation s effectively connected income and 30% for the branch profits tax.

Under the income tax treaty between Bermuda and the United States (the Bermuda Treaty), a Bermuda insurance company would not be subject to U.S. income tax on any insurance income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. AG Re currently intends to conduct its activities so that it does not have a permanent establishment in the United States.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (i) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (ii) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the United States or Bermuda nor U.S. citizens. We believe AG Re qualifies for Bermuda treaty benefits. Assured Guaranty is not eligible for treaty benefits because it is not an insurance company.

Foreign insurance companies carrying on an insurance business within the United States have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risk insured or reinsured by such companies. If AG Re is considered to be engaged in the conduct of an insurance business in the United States and is not entitled to the benefits of the Bermuda Treaty in general (because it fails to satisfy one of the limitations on treaty benefits discussed above), the Code could subject a significant portion of AG Re s investment income to U.S. income tax.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to AG Re and Assured Guaranty UK are 4% for casualty insurance premiums and 1% for reinsurance premium on life insurance premiums, subject to reduction to 0% under the U.K. Treaty with respect to premiums paid to Assured Guaranty UK.

Assured Guaranty US Holdings is a Delaware holding company. Its direct subsidiaries are AGC, a Maryland corporation and AG Financial Products, a Delaware corporation. Assured Guaranty Overseas US Holdings is a Delaware corporation and its subsidiary, AGRO, is a Bermuda company which has elected under the Code to be taxed as a U.S. corporation. AGRO s subsidiary is Assured Guaranty Mortgage, which is a New York corporation. As such, each corporation is subject to taxation in the United States at regular corporate rates. Dividends paid, if any, by Assured Guaranty US Holdings to Assured Guaranty will be subject to a 30% U.S. withholding tax.

Taxation of Shareholders

Bermuda Taxation

Currently, there is no Bermuda withholding or other tax payable on principal, interests or dividends paid to the holders of the common shares of Assured Guaranty.

United States Taxation

This discussion is based upon the Code, the regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the United States.

The following summary sets forth the material U.S. federal income tax considerations related to the purchase, ownership and disposition of common shares. Unless otherwise stated, this summary deals only with holders that are U.S. Persons (as defined below) who purchase their common shares and who hold their common shares as capital assets within the meaning of section 1221 of the Code. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder s specific circumstances. For example, special rules apply to certain shareholders, such as partnerships, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers or traders in securities, tax exempt organizations, expatriates, persons who are considered with respect to any of us as United States shareholders for purposes of the controlled foreign corporation (CFC) rules of the Code (generally, a U.S. Person, as defined below, who owns or is deemed to own 10% or more of the total combined voting power of all classes of Assured Guaranty or the stock of any of our foreign subsidiaries entitled to vote (i.e., 10% U.S. Shareholders)), or persons who hold the common shares as part of a hedging or conversion transaction or as part of a short-sale or straddle. Any such shareholder should consult their tax advisor.

For purposes of this discussion, the term U.S. Person means: (i) a citizen or resident of the United States, (ii) a partnership or corporation, or entity treated as a corporation, created or organized in or under the laws of the United States, or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if either (x) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. Persons have the authority to control all substantial decisions of such trust or (y) the trust has a valid election in effect to be treated as a U.S. Person for U.S. federal income tax purposes or (v) any other person or entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing.

Taxation of Dividends. Subject to the discussions below relating to the potential application of the CFC, related person insurance income (RPII), passive foreign investment company (PFIC) and foreign personal holding company (FPHC) rules, cash distributions, if any, made with respect to the common shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of Assured Guaranty (as computed using U.S. tax principles). Under current legislation, certain dividends paid to individual shareholders before 2009 are eligible for reduced rates of tax. Dividends paid by Assured Guaranty to corporate shareholders will not be eligible for the dividends received deduction. To the extent such distributions exceed Assured Guaranty s earnings and profits, they will be treated first as a return of the shareholder s basis in the common shares to the extent thereof, and then as gain from the sale of a capital asset.

Classification of Assured Guaranty or its Foreign Subsidiaries as Controlled Foreign Corporation. Each 10% U.S. Shareholder (as defined below) of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and who owns shares in the CFC, directly or indirectly through foreign entities, on the last day of the CFC s taxable year, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC s subpart F income, even if the subpart F income is not distributed. A foreign corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules of section 958(b) of the Code (i.e., constructively)) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or more than 50% of the total value of all stock of such corporation on any day during the taxable year of such corporation. For purposes of taking into account insurance income, a CFC also includes a foreign insurance company in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation. A 10% U.S. Shareholder is a U.S. Person who owns (directly, indirectly through foreign entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. We believe that because of the dispersion of our share ownership, provisions in our organizational documents that limit voting power (these provisions are described in Description of Share Capital) and other factors, no U.S. Person who owns shares of Assured Guaranty directly or indirectly through one or more foreign entities should be treated as owning (directly, indirectly through foreign entities, or constructively), 10% or more of the total voting power of all classes of shares of Assured Guaranty or any of its foreign subsidiaries. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge.

The RPII CFC Provisions. The following discussion generally is applicable only if the RPII of AG Re determined on a gross basis, is 20% or more of AG Re s gross insurance income for the taxable year and the 20% Ownership Exception (as defined below) is not met. The following discussion generally would not apply for any fiscal year in which AG Re s gross RPII falls below the 20% threshold or the 20% Ownership Exception is met. Although we cannot be certain, Assured Guaranty believes that AG Re was in prior years of operations and will be for the foreseeable future below either the 20% threshold or 20% Ownership Exception for each tax year.

RPII is any insurance income (as defined below) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a RPII shareholder (as defined below) or a related person (as defined below) to such RPII shareholder. In general, and subject to certain limitations, insurance income is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract which would be taxed under the portions of the Code relating to insurance companies if the income were the income of a domestic insurance company. For purposes of inclusion of the RPII of AG Re in the income of RPII shareholders, unless an exception applies, the term RPII shareholder means any U.S. Person who owns (directly or indirectly through foreign entities) any amount of Assured Guaranty s common shares. Generally, the term related person for this purpose means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock applying certain constructive ownership principles. AG Re will be treated as a CFC under the RPII provisions if RPII shareholders are treated as owning (directly, indirectly through foreign entities or constructively) 25% or more of the shares of Assured Guaranty by vote or value.

RPII Exceptions. The special RPII rules do not apply if (i) at all times during the taxable year less than 20% of the voting power and less than 20% of the value of the stock of Assured Guaranty (the 20% Ownership Exception) is owned (directly or indirectly) by persons whose (directly or indirectly) insured under any policy of insurance or reinsurance issued by AG Re or related persons to any such person, (ii) RPII, determined on a gross basis, is less than 20% of AG Re s gross insurance income for the taxable year (the 20% Gross Income Exception), (iii) AG Re elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a U.S. trade or business, and to waive all treaty benefits with respect to RPII and meet certain other requirements or (iv) AG Re elects to be treated as a U.S. corporation and waive all treaty benefits and meet certain other requirements. Where none of these exceptions applies, each U.S. Person owning or treated as owning any shares in Assured Guaranty (and therefore, indirectly, in AG Re) on the last day of Assured Guaranty s taxable year will be required to include in its gross income for U.S. federal income tax purposes its share of the RPII for the portion of the taxable year during which AG Re was a CFC under the RPII provisions, determined as if all such RPII were distributed proportionately only to such U.S. Persons at that date, but limited by each such U.S. Person s share of AG Re s current-year earnings and profits as reduced by the U.S. Person s share, if any, of certain prior-year deficits in earnings and profits. AG Re intends to operate in a manner that is intended to ensure that each qualifies for either the 20% Gross Income Exception or 20% Ownership Exception.

Computation of RPII. For any year in which AG Re s gross RPII is 20% or more of its gross insurance income for the year and AG Re does not meet the 20% Ownership Exception, Assured Guaranty may also seek information from its shareholders as to whether beneficial owners of common shares at the end of the year are U.S. Persons so that the RPII may be determined and apportioned among such persons; to the extent Assured Guaranty is unable to determine whether a beneficial owner of common shares is a U.S. Person, Assured Guaranty may assume that such owner is not a U.S. Person, thereby increasing the per share RPII amount for all known RPII shareholders. The amount of RPII includable in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

If gross RPII is less than 20% of gross insurance income or AG Re meets the 20% Ownership Exception, RPII shareholders will not be required to include RPII in their taxable income. The amount of RPII includable in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

Apportionment of RPII to U.S. Holders. Every RPII shareholder who owns common shares on the last day of any taxable year of Assured Guaranty in which AG Re s gross insurance income constituting RPII for that year equals or exceeds 20% of AG Re s gross insurance income and AG Re does not meet the 20% Ownership Exception should expect that for such year it will be required to include in gross income its share of AG Re s RPII for the portion of the taxable year during which AG Re was a CFC under the RPII provisions, whether or not distributed, even though it may not have owned the shares throughout such period. A RPII shareholder who owns common shares during such taxable year but not on the last day of the taxable year is not required to include in gross income any part of AG Re s RPII.

Uncertainty as to Application of RPII. The RPII provisions are complex, have never been interpreted by the courts or the Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. These provisions include the grant of authority to the Treasury Department to prescribe such regulations as may be necessary to carry out the purpose of this subsection including regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise. Accordingly, the meaning of the RPII provisions and the application thereof to AG Re is uncertain. In addition, we cannot be certain that the amount of RPII or the amounts of the RPII inclusions for any particular RPII shareholder, if any, will not be subject to adjustment based upon subsequent IRS examination. Any prospective investor which does business with AG Re and is considering an investment in common shares should consult his tax advisor as to the effects of these uncertainties.

Tax-Exempt Shareholders. Tax-exempt entities will be required to treat certain subpart F insurance income, including RPII, that is includible in income by the tax-exempt entity as unrelated business taxable income. Prospective investors that are tax exempt entities are urged to consult their tax advisors as to the potential impact of the unrelated business taxable income provisions of the Code. A tax-exempt organization that is treated as a 10% U.S. Shareholder or a RPII Shareholder also must file IRS Form 5471 in certain circumstances.

Dispositions of Common Shares. Subject to the discussions below relating to the potential application of the Code section 1248 and PFIC rules, holders of common shares generally should recognize capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of common shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. If the holding period for these common shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 15% for individuals and 35% for corporations. Moreover, gain, if any, generally will be a U.S. source gain and generally will constitute passive income for foreign tax credit limitation purposes.

Code section 1248 provides that if a U.S. Person sells or exchanges stock in a foreign corporation and such person owned, directly, indirectly through certain foreign entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC s earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). We believe that because of the dispersion of our share ownership, provisions in our organizational documents that limit voting power and other factors that no U.S. shareholder of Assured Guaranty should be treated as owning (directly, indirectly through foreign entities or constructively) 10% of more of the total voting power of Assured Guaranty; to the extent this is the case this application of Code Section 1248 under the regular CFC rules should not apply to dispositions of our common shares. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. In the event this is determined necessary, Assured Guaranty will provide a completed IRS Form 5471 or the relevant information necessary to complete the Form. Code section 1248 also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10% U.S. Shareholder or whether RPII constitutes 20% or more of the corporation s gross insurance income or the 20% Ownership Exception applies. Existing proposed regulations do not address whether Code section 1248 would apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. We believe, however, that this application of Code section 1248 under the RPII rules should not apply to dispositions of common shares because Assured Guaranty will not be directly engaged in the insurance business. We cannot be certain, however, that the IRS will not interpret the proposed regulations in a contrary manner or that the Treasury Department will not amend the proposed regulations to provide that these rules will apply to dispositions of common shares. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of common shares.

Description of Share Capital

The following summary of our share capital is qualified in its entirety by the provisions of Bermuda law, our memorandum of association and Bye-Laws, copies of which are incorporated by reference as exhibits to this Annual Report on Form 10-K. In this section, the Company, we, us and our refer to Assured Guaranty Ltd. and not to any of its subsidiaries.

General

We have an authorized share capital of $5,000,000 divided into 500,000,000 shares, par value U.S. $0.01 per share, of which 67,637,942 common shares were issued and outstanding as of February 22, 2007. Except as described below, our common shares have no preemptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of our common shares are entitled to share equally, in proportion to the number of common shares held by such holder, in our assets, if any remain after the payment of all our debts and liabilities and the liquidation preference of any outstanding preferred shares. Under certain circumstances, we have the right to purchase all or a portion of the shares held by a shareholder. See Acquisition of Common Shares by Us below.

Voting Rights and Adjustments

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote with respect to their fully paid shares at all meetings of shareholders. However, if, and so long as, the common shares (and other of our shares) of a shareholder are treated as controlled shares (as determined pursuant to section 958 of the Code) of any United States person as defined in the Code (a U.S. Person) and such controlled shares constitute 9.5% or more of the votes conferred by our issued and outstanding shares, the voting rights with respect to the controlled shares owned by such U.S. Person shall be limited, in the aggregate, to a voting power of less than 9.5% of the voting power of all issued and outstanding shares, under a formula specified in our Bye-laws. The formula is applied repeatedly until there is no U.S. Person whose controlled shares constitute 9.5% or more of the voting power of all issued and outstanding shares and who generally would be required to recognize income with respect to us under the Code if we were a controlled foreign corporation as defined in the Code and if the ownership threshold under the Code were 9.5% (as defined in our Bye-Laws as a 9.5% U.S. Shareholder). In addition, our Board of Directors may determine that shares held carry different voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5% U.S. Shareholder; and (ii) avoid adverse tax, legal or regulatory consequences to the Company or any of its subsidiaries or any direct or indirect holder of shares or its affiliates. Controlled shares includes, among other things, all shares of Assured Guaranty that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). The foregoing provision does not apply to ACE because it is not a U.S. Shareholder. Further, these provisions do not apply in the event one shareholder owns greater than 75% of the voting power of all issued and outstanding shares.

Under these provisions, certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. Moreover, these provisions could have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the 9.5% limitation by virtue of their direct share ownership. Our Bye-laws provide that we will use our best efforts to notify shareholders of their voting interests prior to any vote to be taken by them.

Our Board of Directors is authorized to require any shareholder to provide information for purposes of determining whether any holder s voting rights are to be adjusted, which may be information on beneficial share ownership, the names of persons having beneficial ownership of the shareholder s shares, relationships with other shareholders or any other facts our Board of Directors may deem relevant. If any holder fails to respond to this request or submits incomplete or inaccurate information, our Board of Directors may eliminate the shareholder s voting rights. All information provided by the shareholder will be treated by us as confidential information and shall be used by us solely for the purpose of establishing whether any 9.5% U.S. Shareholder exists and applying the adjustments to voting power (except as otherwise required by applicable law or regulation).

Restrictions on Transfer of Common Shares

Our Board of Directors may decline to register a transfer of any common shares under certain circumstances, including if they have reason to believe that any adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders or indirect holders of shares or its Affiliates may occur as a result of such transfer (other than such as our Board of Directors considers de minimis). Transfers must be by instrument unless otherwise permitted by the Companies Act.

The restrictions on transfer and voting restrictions described above may have the effect of delaying, deferring or preventing a change in control of Assured Guaranty.

Acquisition of Common Shares by Us

Under our Bye-Laws and subject to Bermuda law, if our Board of Directors determines that any ownership of our shares may result in adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders or indirect holders of shares or its Affiliates (other than such as our Board of Directors considers de minimis), we have the option, but not the obligation, to require such shareholder to sell to us or to a third party to whom we assign the repurchase right the minimum number of common shares necessary to avoid or cure any such adverse consequences at a price determined in the discretion of the Board of Directors to represent the shares fair market value (as defined in our Bye-Laws).

Other Provisions of Our Bye-Laws

Our Board of Directors and Corporate Action. Our Bye-Laws provide that our Board of Directors shall consist of not less than three and not more than 21 directors, the exact number as determined by the Board of Directors. Our Board of Directors consists of ten persons, and is divided into three classes. Each elected director generally will serve a three year term, with termination staggered according to class. Shareholders may only remove a director for cause (as defined in our Bye-Laws) at a general meeting, provided that the notice of any such meeting convened for the purpose of removing a director shall contain a statement of the intention to do so and shall be provided to that director at least two weeks before the meeting. Vacancies on the Board of Directors can be filled by the Board of Directors if the vacancy occurs in those events set out in our Bye-Laws as a result of death, disability, disqualification or resignation of a director, or from an increase in the size of the Board of Directors.

Generally under our Bye-Laws, the affirmative votes of a majority of the votes cast at any meeting at which a quorum is present is required to authorize a resolution put to vote at a meeting of the Board of Directors. Corporate action may also be taken by a unanimous written resolution of the Board of Directors without a meeting. A quorum shall be at least one-half of directors then in office present in person or represented by a duly authorized representative, provided that at least two directors are present in person.

Shareholder Action. At the commencement of any general meeting, two or more persons present in person and representing, in person or by proxy, more than 50% of the issued and outstanding shares entitled to vote at the meeting shall constitute a quorum for the transaction of business. In general, any questions proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the Bye-Laws.

The Bye-Laws contain advance notice requirements for shareholder proposals and nominations for directors, including when proposals and nominations must be received and the information to be included.

Amendment. The Bye-Laws may be amended only by a resolution adopted by the Board of Directors and by resolution of the shareholders.

Voting of Non-U.S. Subsidiary Shares. If we are required or entitled to vote at a general meeting of any of AG Re, AGFOL or any other directly held non-U.S. subsidiary of ours, our Board of Directors shall refer the subject matter of the vote to our shareholders and seek direction from such shareholders as to how they should vote on the resolution proposed by the non-U.S. subsidiary. Our Board of Directors in its discretion shall require substantially similar provisions are or will be contained in the bye-laws (or equivalent governing documents) of any direct or indirect non-U.S. subsidiaries other than UK and AGRO.

Employees

As of December 31, 2006, we had 135 employees. None of our employees are subject to collective bargaining agreements. We believe that employee relations are satisfactory.

Available Information

We maintain an Internet Web site at www.assuredguaranty.com. We make available, free of charge, on our Web site (under Investor Information / SEC Filings) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act (15 U.S.C. 78m (a) or 78o(d)) as soon as reasonably practicable after we file such material with, or furnish it to, the Securities and Exchange Commission.

We also make available free of charge through our Web site (under Investor Information / Corporate Governance) links to our Corporate Governance Guidelines, our Code of Conduct and Charters for our Board Committees. These documents are also available in print to any shareholder who requests them from our secretary by:

telephone (441) 278-6679
facsimile (441) 296-1083
e-mail jmichener@assuredguaranty.com

Nothing on our website should be considered incorporated by reference in this report.

ITEM 1A. RISK FACTORS

You should carefully consider the following information, together with the other information contained in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. However, these are the risks our management believes are material. Additional risks not presently known to us or that we currently deem immaterial may also impair our business or results of operations. Any of the risks described below could result in a significant or material adverse effect on our results of operations or financial condition.

Risks Related to Our Company

A downgrade of the financial strength or financial enhancement ratings of any of our insurance subsidiaries could adversely affect our business and prospects and, consequently, our results of operations and financial condition.

Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. The objective of these ratings is to provide an opinion of an insurer s financial strength and ability to meet ongoing obligations to its policyholders. Ratings reflect the rating agencies opinions of our financial strength, and are neither evaluations directed to investors in our common shares nor recommendations to buy, sell or hold our common shares.

As of the date of this Form 10-K, our insurance company subsidiaries have been assigned the following insurance financial strength ratings:

	Moody s	S&P	Fitch
AGC	Aa1(Excellent)	AAA(Extremely Strong)	AAA(Extremely Strong)
AG Re	Aa2(Excellent)	AA(Very Strong)	AA(Very Strong)
AGRO	Aa2(Excellent)	AA(Very Strong)	AA(Very Strong)
Assured Guaranty Mortgage	Aa2(Excellent)	AA(Very Strong)	AA(Very Strong)
Assured Guaranty (UK) Ltd	Aa1(Excellent)	AAA(Extremely Strong)	AAA(Extremely Strong)

Aa1 (Excellent) is the second highest ranking and Aa2 (Excellent) is the third highest ranking of 21 ratings categories used by Moody s Investors Service (Moody s). A AAA (Extremely Strong) rating is the highest ranking and AA (Very Strong) is the third highest ranking of the 21 ratings categories used by Standard & Poor s Inc. (S&P). AAA (Extremely Strong) is the highest ranking and AA (Very Strong) is the third highest ranking of the 24 ratings categories used by Fitch Ratings (Fitch). An insurance financial strength rating is an opinion with respect to an insurer s ability to pay under its insurance policies and contracts in accordance with their terms. The opinion is not specific to any particular policy or contract. Insurance financial strength ratings do not refer to an insurer s ability to meet non insurance obligations and are not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold, or sell any security issued by an insurer, including our common shares.

The major rating agencies have developed and published rating guidelines for rating financial guaranty and mortgage guaranty insurers and reinsurers. The insurance financial strength ratings assigned by S&P, Moody s and Fitch are based upon factors relevant to policyholders and are not directed toward the protection of investors in our common shares. The rating criteria used by the rating agencies in establishing these ratings include consideration of the sufficiency of capital resources to meet projected growth (as well as access to such additional capital as may be necessary to continue to meet applicable capital adequacy standards), the company s overall financial strength, and demonstrated management expertise in financial guaranty and traditional reinsurance, credit analysis, systems development, marketing, capital markets and investment operations. Obligations insured by AGC generally are rated Aa1, AAA and AAA by Moody s, S&P and Fitch, respectively, by virtue of such insurance. These ratings reflect only the views of the respective rating agencies and are subject to revision or withdrawal at any time.

The rating agencies grant credit to primary companies in their calculations of required capital and single risk limits for reinsurance ceded. The amount of credit is a function of the financial strength rating of the reinsurer. For example, S&P has established the following reinsurance credit for business ceded to a monoline reinsurer, including AG Re and AGRO:

	Monoline Reinsurer Rating			
Ceding Company Rating	AAA	AA	A	BBB
AAA	100%	70%	50%	n/a
AA	100%	75%	70%	50%
A	100%	80%	75%	70%
Below A: Not applicable.				

For reinsurance ceded to a multiline reinsurer, S&P has re-examined its methodology for the determination of reinsurance credit. In the course of its examination, S&P considered the effect of having both monoline and multiline companies in the industry, determining that multiline reinsurers had not demonstrated sufficient commitment to participation in the industry and occasionally had handled claims for financial guaranty reinsurance as they handle claims in their other business lines. S&P therefore determined that no rating agency reinsurance credit would be accorded cessions to multiline reinsurance companies that had not demonstrated their willingness and ability to make timely payment, which willingness and ability is measured by a financial enhancement rating (FER) from S&P. A financial enhancement rating reflects not only an insurer s perceived ability to pay claims, but also its perceived willingness to pay claims. FERs are assigned by S&P to multiline insurers requesting the rating who meet stringent criteria identifying the company s capacity and willingness to pay claims on a timely basis. S&P has established the following reinsurance credit for business ceded to a multiline reinsurer carrying an FER:

	Multiline Reinsurer Rating			
Ceding Company Rating	**AAA**	**AA**	**A**	**BBB**
AAA	95 %	65 %	45 %	n/a
AA	95 %	70 %	65 %	45 %
A	95 %	75 %	70 %	65 %
Below A: Not applicable.				

The ratings of AGRO, Assured Guaranty Mortgage and Assured Guaranty (UK) Ltd. are dependent upon support in the form of keepwell agreements. AG Re provides a keepwell to its subsidiary, AGRO. AGRO provides a keepwell to its subsidiary, Assured Guaranty Mortgage. AGC provides a keepwell to its subsidiary, Assured Guaranty (UK) Ltd. Pursuant to the terms of these agreements, each of AG Re, AGRO and AGC agrees to provide funds to their respective subsidiaries sufficient for those subsidiaries to meet their obligations.

The ratings assigned by S&P, Moody s and Fitch to our insurance subsidiaries are subject to periodic review and may be downgraded by one or more of the rating agencies as a result of changes in the views of the rating agencies or adverse developments in our subsidiaries financial conditions or results of operations due to underwriting or investment losses or other factors. As a result, the ratings assigned to our insurance subsidiaries by any of the rating agencies may change at any time. If the ratings of any of our insurance subsidiaries were reduced below current levels by any of the rating agencies, it could have an adverse effect on the affected subsidiary s competitive position and its prospects for future business opportunities. A downgrade may also reduce the value of the reinsurance we offer, which may no longer be of sufficient economic value for our customers to continue to cede to our subsidiaries at economically viable rates.

With respect to a significant portion of our in-force financial guaranty reinsurance business, in the event of certain downgrades, the ceding company has the right to recapture business ceded to the affected subsidiary and assets representing substantially all of the statutory unearned premium and loss reserves (if any) associated with that business, with a corresponding negative impact to earnings, which could be significant. Alternatively, the ceding company can increase the commissions it charges us for cessions. Any such increase may be retroactive to the date of the cession, requiring the affected subsidiary to refund a portion of related premium previously earned, with a corresponding negative impact to earnings, which could be significant. In the event of a downgrade of any of our subsidiaries that write or insure exposures relating to contracts that allow for the use of derivative instruments to transfer credit risk, or credit derivatives, a downgrade below negotiated levels may allow a counterparty to terminate its agreements, resulting in the possible payment of a settlement amount. A downgrade also will increase the possibility that we may have to pledge collateral for the benefit of a counterparty.

A downgrade may also negatively impact the affected company s ability to write new business or negotiate favorable terms on new business.

Our success depends on our ability to successfully execute our business strategy.

Our strategy is to focus on two core businesses: (1) financial guaranty direct insurance and (2) financial guaranty reinsurance.

The fact that AGC, through which we write financial guaranty insurance, carries a triple-A rating from S&P and Fitch, but not from Moody s, places it at a competitive disadvantage against companies rated triple-A by S&P, Fitch and Moody s. The absence of a triple-A rating from Moody s may adversely affect the desirability of our financial guaranty insurance, and in fact may preclude us from successfully marketing our financial guaranty insurance in certain markets. Furthermore, while we have a substantial in-force book of financial guaranty direct business, the majority of that exposure was written in the credit derivatives market rather than in the more traditional third party financial guaranty insurance market. We may not be able to successfully expand relationships with issuers, servicers and other parties that are necessary to generate business in the traditional financial guaranty insurance market.

We are dependent on a small number of ceding companies to provide us with a substantial part of our reinsurance business.

We have derived a substantial portion of our revenues from financial guaranty reinsurance premiums. A significant reduction in the amount of reinsurance ceded by one or more of our principal ceding companies would have an adverse effect upon our reinsurance business. A number of factors could cause such a reduction, such as, reluctance among our principal ceding companies to cede business to us as a result of competition with them in the direct financial guaranty business. In addition, primary insurers may retain higher levels of risk than in the past. Also, the volume of municipal bond and structured securities new issuances, together with the levels of and changes in interest rates and investor demand, may significantly affect the new business activities of primary financial guaranty insurers and, consequently, their use of reinsurance.

Additionally, our ability to receive profitable pricing for our reinsurance depends largely on prices charged by the primary insurers for their insurance coverage and the amount of ceding commissions paid by us to these primary insurers.

General economic factors, including fluctuations in interest rates and housing prices, may adversely affect our loss experience and the demand for our products.

Our business, and the risks associated with our business, depend in large measure on general economic conditions and capital markets activity. Our loss experience could be materially adversely affected by extended national or regional economic recessions, business failures, rising unemployment rates, interest rate changes or volatility, changes in investor perceptions regarding the strength of financial guaranty providers and the policies or guaranties offered by such providers, investor concern over the credit quality of municipalities or corporations, terrorist attacks, acts of war, or combinations of such factors. These events could also materially decrease demand for financial guaranty insurance. In addition to exposure to general economic factors, we are exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by our financial guaranty products.

Prevailing interest rate levels affect capital markets activity which in turn affects demand for financial guaranty insurance. Higher interest rates may result in declines in new issue and refunding volume which may reduce demand for our financial guaranty products. Lower interest rates generally are accompanied by narrower interest rate spreads between insured and uninsured obligations. The purchase of insurance during periods of narrower interest rate spreads generally will provide lower cost savings to the issuer than during periods of wider spreads. These lower cost savings could be accompanied by a corresponding decrease in demand for financial guaranty insurance. However, the increased level of refundings during periods of lower interest rates historically has increased the demand for insurance.

Under the standard mortgage insurance policies that we reinsure, a default on the underlying mortgage generally will give the insurer the option to pay the entire loss amount and take title to the mortgaged property or pay the coverage percentage in full satisfaction of its obligations under the policy. Due to a strong housing market in recent years, insurers have been able to take advantage of paying the entire loss amount and selling properties quickly. If housing values depreciate or fail to appreciate, the primary insurers ability to recover amounts paid on defaulted mortgages may be reduced or delayed, which in turn may lead to increased losses under our related reinsurance contracts and have a material adverse affect on our results of operations or our financial condition in general.

If claims exceed our loss reserves, our financial results could be significantly adversely affected.

Our results of operations and financial condition depend upon our ability to assess accurately and manage the potential loss associated with the risks that we insure and reinsure. We establish loss and loss adjustment expense reserves, based on estimates involving statistical projections of our expectations of the ultimate settlement and administration costs of claims on the policies we write. We use statistical models as well as historical insurance industry loss development patterns as estimates of future trends in claims severity, frequency and other factors to establish our estimate of loss reserves. Establishing loss reserves is an inherently uncertain process. Accordingly, actual claims and claim expenses paid may deviate, perhaps materially, from the reserve estimates reflected in our consolidated financial statements.

If our loss reserves at any time are determined to be inadequate, we will be required to increase loss reserves at the time of such determination. This could cause a material increase in our liabilities and a reduction in our profitability, or possibly an operating loss and reduction of capital.

Adverse selection by ceding companies may adversely affect our financial results.

A portion of our reinsurance business is written under treaties, which generally give the ceding company some ability to select the risks ceded to us as long as they are covered by the terms of the treaty. There is a risk under these treaties that the ceding companies will adversely select the risks ceded to us by ceding those exposures that have higher rating agency capital charges or that the ceding companies expect to be less profitable. We attempt to mitigate this risk in a number of ways, including requiring ceding companies to retain a minimum amount, which varies by treaty, of the ceded business. If we are unsuccessful in mitigating this risk, our financial results may be adversely affected.

Our financial guaranty products may subject us to significant risks from individual or correlated credits.

We could be exposed to corporate credit risk if the credit s securities are contained in a portfolio of collateralized debt obligations (CDOs) we insure, or if it is the originator or servicer of loans or other assets backing structured securities that we have insured. A CDO is a debt security backed by a pool of debt obligations. While we track our aggregate exposure to single names in our various lines of business and have established underwriting criteria to manage risk aggregations, there can be no assurance that our ultimate exposure to a single name will not exceed our underwriting guidelines, or that an event with respect to a single name will not cause a significant loss. In addition, because we insure or reinsure municipal bonds, we can have significant exposures to single municipal risks. While the risk of a complete loss, where we pay the entire principal amount of an issue of bonds and interest thereon with no recovery, is generally lower than for corporate credits as most municipal bonds are backed by tax or other revenues, there can be no assurance that a single default by a municipality would not have a material adverse effect on our results of operations or financial condition.

Some of our direct financial guaranty products may be riskier than traditional financial guaranty insurance.

A substantial portion of our financial guaranty direct exposures have been assumed as credit derivatives. Traditional financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a municipal finance or structured finance obligation against non payment of principal and interest, while credit derivatives provide protection from the occurrence of specified credit events, including non payment of principal and interest. In general, the Company structures derivative transactions such that the method for making loss payments is similar to that for traditional financial guaranty policies or only occurs as losses are realized on the underlying reference obligation. Nonetheless, credit derivative transactions are governed by ISDA documentation and may operate differently from traditional financial guaranty policies with respect to loss payments control rights.

Competition in our industry may adversely affect our revenues.

We face significant competition in our business, and our revenues and profitability could decline as a result of competition.

The financial guaranty industry is highly competitive. The principal sources of direct and indirect competition are other financial guaranty insurance companies, most of which have greater financial resources and superior financial strength ratings than we do. We also face competition from other forms of credit enhancement, including structural enhancement incorporated in structured and other obligations and letters of credit, guaranties and credit derivatives provided primarily by foreign and domestic banks and other financial institutions, some of which are governmental enterprises or have been assigned the highest ratings awarded by one or more of the major rating agencies.

There are also a relatively limited number of financial guaranty reinsurance companies. As a result, the industry is particularly vulnerable to swings in capacity based on the entry or exit of one or a small number of financial guaranty reinsurers.

New entrants into the financial guaranty industry could have an adverse effect on our prospects either by furthering price competition or by reducing the aggregate demand for our reinsurance as a result of additional insurance capacity. The most significant barriers to entry for new financial guaranty competitors are rating agency requirements and regulatory capital requirements. New entrants or additional reinsurance capacity would likely have an adverse effect on our business.

With respect to mortgage guaranty reinsurance, we compete with a number of other reinsurance companies as well as with alternatives to reinsurance, including risk sharing arrangements with affiliates of the mortgage insurers and lender owned captives. Many of these competitors have greater experience and relationships in these markets.

We are dependent on key executives and the loss of any of these executives, or our inability to retain other key personnel, could adversely affect our business.

Our success substantially depends upon our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe there are only a limited number of available qualified executives in the business lines in which we compete. Although we are not aware of any planned departures, we rely substantially upon the services of Dominic J. Frederico, our President and Chief Executive Officer, and other executives. Although Mr. Frederico and certain other executives have employment agreements with us, we cannot assure you that we will be able to retain their services. The loss of the services of either of these individuals or other key members of our management team could adversely affect the implementation of our business strategy.

Our business could be adversely affected by Bermuda employment restrictions.

Our location in Bermuda may serve as an impediment to attracting and retaining experienced personnel. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates or working resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate or working resident certificates is available who meets the minimum standards for the position. The Bermuda government s policy places a six year term limit on individuals with work permits, subject to specified exemptions for persons deemed to be key employees. All of our Bermuda based employees who require work permits have been granted permits by the Bermuda government, including our President and Chief Executive Officer, Chief Financial Officer, General Counsel and Secretary, Chief Accounting Officer, Chief Credit Officer and Chief Surveillance Officer. It is possible that we could lose the services of one or more of our key employees if we are unable to obtain or renew their work permits.

We may be adversely affected by interest rate changes affecting the performance of our investment portfolio.

Our operating results are affected, in part, by the performance of our investment portfolio. Changes in interest rates could also have an adverse effect on our investment income. For example, if interest rates decline, funds reinvested will earn less than expected. Our investment portfolio contains interest rate-sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. Increases in interest rates will reduce the value of these securities, resulting in unrealized losses that we are required to include in shareholder s equity as a change in accumulated other comprehensive income. Accordingly, interest rate increases could reduce our shareholder s equity. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Valuation of Investments.

In addition, our investment portfolio includes mortgage-backed securities. As of December 31, 2006, mortgage-backed securities constituted approximately 29% of our invested assets. As with other fixed maturity investments, the fair market value of these securities fluctuates depending on market and other general economic conditions and the interest rate environment. Changes in interest rates can expose us to significant prepayment risks on these investments. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities are prepaid more quickly, requiring us to reinvest the proceeds at then-current market rates. During periods of rising interest rates, the frequency of prepayments generally decreases. Mortgage-backed securities having an amortized value less than par (i.e., purchased at a discount) may incur a decrease in yield or a loss as a result of slower prepayment.

Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political conditions and other factors beyond our control. We do not engage in active management, or hedging, of interest rate risk, and may not be able to mitigate interest rate sensitivity effectively.

The performance of our invested assets affects our results of operations and cash flows.

Income from our investment portfolio is one of the primary sources of cash flows supporting our operations and claim payments. For the years ended December 31, 2006, 2005 and 2004, our net investment income was $111.5 million, $96.8 million and $94.8 million, respectively, in each case exclusive of net realized gains (losses) and unrealized gains (losses) on investments. If our calculations with respect to our policy liabilities are incorrect, or if we improperly structure our investments to meet these liabilities, we could have unexpected losses, including losses resulting from forced liquidation of investments before their maturity. The investment policies of our insurance subsidiaries are subject to insurance law requirements, and may change depending upon regulatory, economic and market conditions and the existing or anticipated financial condition and operating requirements, including the tax position, of our businesses.

We have retained BlackRock Financial Management (BlackRock) to manage our investment portfolio. The performance of our invested assets is subject to their performance in selecting and managing appropriate investments. BlackRock has discretionary authority over our investment portfolio within the limits of our investment guidelines.

Our net income may be volatile because a portion of the credit risk we assume is in the form of credit derivatives that are accounted for under FAS 133, which requires that these instruments be marked-to-market quarterly.

Any event causing credit spreads (i.e., the difference in interest rates between comparable securities having different credit risk) on an underlying security referenced in a credit derivative in our portfolio either to widen or to tighten will affect the fair value of the credit derivative and may increase the volatility of our earnings. Derivatives must be accounted for either as assets or liabilities on the balance sheet and measured at fair market value. Although there is no cash flow effect from this marking to market, net changes in the fair market value of the derivative are reported in our statement of operations and therefore will affect our reported earnings. If the derivative is held to maturity and no credit loss is incurred, any gains or losses previously reported would be offset by corresponding gains or losses at maturity. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Valuation of Derivative Financial Instruments.

Common events that may cause credit spreads on an underlying municipal or corporate security referenced in a credit derivative to fluctuate include changes in the state of national or regional economic conditions, industry cyclicality, changes to a company s competitive position within an industry, management changes, changes in the ratings of the underlying security, movements in interest rates, default or failure to pay interest, or any other factor leading investors to revise expectations about the issuer s ability to pay principal and interest on its debt obligations. Similarly, common events that may cause credit spreads on an underlying structured security referenced in a credit derivative to fluctuate may include the occurrence and severity of collateral defaults, changes in demographic trends and their impact on the levels of credit enhancement, rating changes, changes in interest rates or prepayment speeds, or any other factor leading investors to revise expectations about the risk of the collateral or the ability of the servicer to collect payments on the underlying assets sufficient to pay principal and interest.

An increase in our subsidiaries risk-to-capital ratio or leverage ratio may prevent them from writing new insurance.

Rating agencies and insurance regulatory authorities impose capital requirements on our insurance subsidiaries. These capital requirements, which include risk-to-capital ratios, leverage ratios and surplus requirements, limit the amount of insurance that our subsidiaries may write. Our insurance subsidiaries have several alternatives available to control their risk-to-capital ratios and leverage ratios, including obtaining capital contributions from us, purchasing reinsurance or entering into other loss mitigation agreements, or reducing the amount of new business written. However, a material reduction in the statutory capital and surplus of a subsidiary, whether resulting from underwriting or investment losses or otherwise, or a disproportionate increase in the amount of risk in force, could increase a subsidiary s risk-to-capital ratio or leverage ratio. This in turn could require that subsidiary to obtain reinsurance for existing business (which may not be available, or may be available on terms that we consider unfavorable), or add to its capital base to maintain its financial strength ratings. Failure to maintain such ratings could limit that subsidiary s ability to write new business.

We may require additional capital in the future, which may not be available or may be available only on unfavorable terms.

Our capital requirements depend on many factors, including our in-force book of business and rating agency capital requirements. To the extent that our existing capital is insufficient to meet these requirements and/or cover losses, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could result in dilution to our shareholders and the securities may have rights, preferences and privileges that are senior to those of our common shares. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital.

Adequate soft capital support may not be available.

Financial guaranty insurers and reinsurers typically rely on providers of lines of credit, credit swap facilities and similar capital support mechanisms (often referred to as soft capital) to supplement their hard capital. The ratings of soft capital providers directly affect the level of capital credit which the rating agencies attribute to the financial guaranty insurer or reinsurer when rating its financial strength. We intend to maintain soft capital facilities with providers having ratings adequate to provide the desired capital credit, although no assurance can be given that one or more of the rating agencies will not downgrade or withdraw the applicable ratings of such providers in the future. In addition, we cannot assure you that an acceptable replacement provider would be available in that event.

We may require additional liquidity in the future, which may not be available or may be available only on unfavorable terms.

We require liquidity in order to pay our operating expenses, interest on our debt and dividends on our common shares, and to make capital investments in our operating subsidiaries. We anticipate that our need for liquidity will be met by (1) the ability of our operating subsidiaries to pay dividends or to make other payments to us, (2) external financings and (3) investment income from our invested assets. Some of our subsidiaries are subject to legal and rating agency restrictions on their ability to pay dividends and make other permitted payments, and external financing may or may not be available to us in the future on satisfactory terms. Our other subsidiaries are subject to legal restrictions on their ability to pay dividends and distributions. See Business Regulation. While we believe that we will have sufficient liquidity to satisfy our needs over the next 12 months, there can be no assurance that adverse market conditions, changes in insurance regulatory law or changes in general economic condition that adversely affect our liquidity will not occur. Similarly, there can be no assurance that adequate liquidity will be available to us on favorable terms in the future.

Liquidity at our operating subsidiaries is used to pay operating expenses, claims, payment obligation with respect to credit derivatives, reinsurance premiums and dividends to Assured Guaranty US Holding for debt service and dividends to us, as well as, where appropriate, to make capital investments in their own subsidiaries. While we believe that the operating cash flows of our subsidiaries will be sufficient to meet their needs, we cannot assure you that this will be the case, nor can we assure you that existing liquidity facilities will prove adequate to their needs, or be available to them on favorable terms in the future.

Changes in tax laws could reduce the demand or profitability of financial guaranty insurance, or negatively impact our investment portfolio.

Any material change in the U.S. tax treatment of municipal securities, the imposition of a flat tax, the imposition of a national sales tax in lieu of the current federal income tax structure in the United States, or changes in the treatment of dividends, could adversely affect the market for municipal obligations and, consequently, reduce the demand for financial guaranty insurance and reinsurance of such obligations.

Changes in U.S. federal, state or local laws that materially adversely affect the tax treatment of municipal securities or the market for those securities, or other changes negatively affecting the municipal securities market, also may adversely impact our investment portfolio, a significant portion of which is invested in tax-exempt instruments. These adverse changes may adversely affect the value of our tax-exempt portfolio, or its liquidity.

Legislative and regulatory changes and interpretations could harm our business.

Changes in laws and regulations affecting insurance companies, the municipal and structured securities markets, the financial guaranty and mortgage guaranty insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, may subject us to additional legal liability, or affect the demand for the products that we provide. For example, recent uncertainty regarding the accounting for structured securities significantly, though temporarily, reduced new issuances of certain types of structured securities.

Our ability to meet our obligations may be constrained by our holding company structure.

Assured Guaranty is a holding company and, as such, has no direct operations of its own. We do not expect to have any significant operations or assets other than our ownership of the shares of our subsidiaries. Dividends and other permitted payments from our operating subsidiaries are expected to be our primary source of funds to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends to our shareholders. Our insurance subsidiaries are subject to regulatory and rating agency restrictions limiting their ability to declare and to pay dividends and make other payments to us. In addition, to the extent that dividends are paid from our U.S. subsidiaries, they presently would be subject to U.S. withholding tax at a rate of 30%. The inability of our insurance subsidiaries to pay sufficient dividends and make other permitted payments to us would have an adverse effect on our ability to satisfy our ongoing cash requirements and on our ability to pay dividends to our shareholders. If we do not pay dividends, the only return on your investment in our Company, if at all, would come from any appreciation in the price of our common shares. For more information regarding these limitations, see Business Regulation.

Our ability to pay dividends may be constrained by certain regulatory requirements and restrictions.

We are subject to Bermuda regulatory constraints that will affect our ability to pay dividends on our common shares and to make other payments. Under the Bermuda Companies Act 1981, as amended (the Companies Act), we may declare or pay a dividend out of distributable reserves only (1) if we have reasonable grounds for believing that we are, and after the payment would be, able to pay our liabilities as they become due and (2) if the realizable value of our assets would not be less than the aggregate of our liabilities and issued share capital and share premium accounts. While we currently intend to pay dividends, if you require dividend income you should carefully consider these risks before investing in our company. For more information regarding restrictions on our ability to pay dividends, see Business Regulation.

There are provisions in our Bye-Laws that may reduce or increase the voting rights of our common shares.

If, and so long as, the common shares of a shareholder are treated as controlled shares (as determined under section 958 of the Internal Revenue Code of 1986, as amended (the Code)) of any U.S. Person (as defined in Tax Matters Taxation of Shareholders) and such controlled shares constitute 9.5% or more of the votes conferred by our issued shares, the voting rights with respect to the controlled shares of such U.S. Person (a 9.5% U.S. Shareholder) shall be limited, in the aggregate, to a voting power of less than 9.5%, under a formula specified in our Bye-Laws. The formula is applied repeatedly until the voting power of all 9.5% U.S. Shareholders has been reduced to less than 9.5%. In addition, our Board of Directors may limit a shareholder s voting rights where it deems appropriate to do so to (1) avoid the existence of any 9.5% U.S. Shareholders, and (2) avoid certain material adverse tax, legal or regulatory consequences to us or any of our subsidiaries or any shareholder or its affiliates. Controlled shares include, among other things, all shares of Assured Guaranty that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code).

Under these provisions, certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. Moreover, these provisions could have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the 9.5% limitation by virtue of their direct share ownership. Our Bye-Laws provide that shareholders will be notified of their voting interests prior to any vote taken by them.

As a result of any reallocation of votes, your voting rights might increase above 5% of the aggregate voting power of the outstanding common shares, thereby possibly resulting in your becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Exchange Act of 1934 (the Exchange Act). In addition, the reallocation of your votes could result in your becoming subject to the short swing profit recovery and filing requirements under Section 16 of the Exchange Act.

We also have the authority under our Bye-Laws to request information from any shareholder for the purpose of determining whether a shareholder s voting rights are to be reallocated under the Bye-Laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our sole discretion, eliminate such shareholder s voting rights.

There are provisions in our Bye-Laws that may restrict the ability to transfer common shares, and that may require shareholders to sell their common shares.

Our Board of Directors may decline to approve or register a transfer of any common shares (1) if it appears to the Board of Directors, after taking into account the limitations on voting rights contained in our Bye-Laws, that any adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders may occur as a result of such transfer (other than such as the Board of Directors considers to be de minimis), or (2) subject to any applicable requirements of or commitments to the New York Stock Exchange, if a written opinion from counsel supporting the legality of the transaction under U.S. securities laws has not been provided or if any required governmental approvals have not been obtained.

Our Bye-Laws also provide that if our Board of Directors determines that share ownership by a person may result in adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders (other than such as the Board of Directors considers to be de minimis), then we have the option, but not the obligation, to require that shareholder to sell to us or to third parties to whom we assign the repurchase right for fair market value the minimum number of common shares held by such person which is necessary to eliminate such adverse tax, legal or regulatory consequences. See Description of Share Capital.

Applicable insurance laws may make it difficult to effect a change of control of the Company.

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. See Regulation Change of Control. Because a person acquiring 10% or more of our common shares would indirectly control the same percentage of the stock of our U.S. insurance company subsidiaries, the insurance change of control laws of Maryland and New York would likely apply to such a transaction.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and in particular unsolicited transactions, that some or all of our shareholders might consider to be desirable.

While our Bye-Laws limit the voting power of any shareholder (other than ACE) to less than 10%, there can be no assurance that the applicable regulatory body would agree that a shareholder who owned 10% or more of our common shares did not, notwithstanding the limitation on the voting power of such shares, control the applicable insurance company subsidiary.

Some reinsurance agreement terms may make it difficult to effect a change of control of the Company

Some of our reinsurance agreements have change of control provisions that are triggered if a third party acquires a designated percentage of our shares. If these change of control provisions are triggered, the ceding company may recapture some or all of the reinsurance business ceded to us in the past. Any such recapture could adversely affect our future income or ratings. These provisions may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our Company, including through transactions that some or all of our shareholders might consider to be desirable.

Anti-takeover provisions in our Bye-Laws could impede an attempt to replace or remove our directors, which could diminish the value of our common shares.

Our Bye-Laws contain provisions that may make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. For example, these provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our common shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging takeover attempts in the future.

Our non-U.S. companies other than AGRO may be subject to U.S. tax.

We intend to manage our business so that Assured Guaranty Ltd., AG Re, Assured Guaranty Finance Overseas, and Assured Guaranty (UK) will operate in such a manner that none of them will be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks, and U.S. withholding tax on certain U.S. source investment income). However, because there is considerable uncertainty as to the activities which constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service (IRS) will not contend successfully that Assured Guaranty or any of our foreign subsidiaries is/are engaged in a trade or business in the United States. If Assured Guaranty Ltd., AG Re, Assured Guaranty Finance Overseas, or Assured Guaranty (UK) were considered to be engaged in a trade or business in the United States, each such company could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business. See Tax Matters Taxation of Assured Guaranty and Subsidiaries United States.

We may become subject to taxes in Bermuda after 2016, which may have a material adverse effect on our results of operations and on your investment.

The Bermuda Minister of Finance, under Bermuda s Exempted Undertakings Tax Protection Act 1966, as amended, has given Assured Guaranty, AGC, AG Re and AGRO an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then subject to certain limitations the imposition of any such tax will not be applicable to Assured Guaranty, AGC or our Bermuda subsidiaries, or any of our or their operations, shares, debentures or other obligations until 2016. See Tax Matters Taxation of Assured Guaranty and Subsidiaries Bermuda. Given the limited duration of the Minister of Finance s assurance, we cannot be certain that we will not be subject to Bermuda tax after 2016.

U.S. Persons who hold common shares will be subject to adverse tax consequences if we or any of our Subsidiaries are considered to be a Personal Holding Company (PHC).

Assured Guaranty or a subsidiary might be subject to U.S. tax on a portion of its income (which in the case of a foreign subsidiary would only include income from U.S. sources and foreign source income effectively connected with a U.S. trade or business) if Assured Guaranty or such subsidiary is considered a personal holding company (PHC) for U.S. federal income tax purposes. This status will depend on whether 50% or more of our shares could be deemed to be owned (pursuant to certain constructive ownership rules) by five or fewer individuals and whether 60% or more of Assured Guaranty s income, or the income of any of its subsidiaries, as determined for U.S. federal income tax purposes, consists of personal holding company income. We believe that neither Assured Guaranty nor any of its subsidiaries should be considered a PHC. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold. However, because of the lack of complete information regarding our ultimate share ownership (i.e., as determined by the constructive ownership rules for PHCs), we cannot be certain that Assured Guaranty and/or any of its subsidiaries will not be considered a PHC.

U.S. Persons who acquire 10% or more of our common shares may be subject to taxation under the controlled foreign corporation (CFC) rules.

Each 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and who owns shares in the CFC directly or indirectly through foreign entities on the last day of the CFC s taxable year, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC s subpart F income, even if the subpart F income is not distributed. See Tax Matters Taxation of Shareholders United States Taxation.

We believe that because of the dispersion of our share ownership, provisions in our Bye-Laws that limit voting power and other factors, no U.S. Person who owns our common shares directly or indirectly through one or more foreign entities should be treated as a 10% U.S. Shareholder of us or of any of our foreign subsidiaries. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge.

U.S. Persons who hold common shares may be subject to U.S. income taxation at ordinary income rates on their proportionate share of our related person insurance income (RPII).

If the gross RPII of AG Re was to equal or exceed 20% of AG Re s gross insurance income in any taxable year and direct or indirect insureds (and persons related to such insureds) own (or are treated as owning directly or indirectly through entities) 20% or more of the voting power or value of our common shares, then a U.S. Person who owns our common shares (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes such person s pro rata share of AG Re s RPII for the entire taxable year, determined as if such RPII were distributed proportionately only to U.S. Persons at that date, regardless of whether such income is distributed. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. The amount of RPII earned by AG Re (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. holder of common shares or any person related to such holder) will depend on a number of factors, including the geographic distribution of AG Re s business and the identity of persons directly or indirectly insured or reinsured by AG Re. We believe AG Re did not in prior years of operation and will not in the foreseeable future have either RPII income which equals or exceeds 20% of gross insurance income or have direct or indirect insureds, as provided for by RIIP rules, of AG Re (and related persons) directly or indirectly own 20% or more of either the voting power or value of our common shares. However, we cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond our control.

U.S. Persons who dispose of our common shares may be subject to U.S. income taxation at ordinary income tax rates in a portion of their gain, if any.

The RPII rules provide that if a U.S. Person disposes of shares in a foreign insurance corporation in which U.S. Persons own 25% or more of the shares (even if the amount of gross RPII is less than 20% of the corporation s gross insurance income and the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold), any gain from the disposition will generally be treated as ordinary income to the extent of the holder s share of the corporation s undistributed earnings and profits that were accumulated during the period that the holder owned the shares (whether or not such earnings and profits are attributable to RPII). In addition, such a holder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the holder. These RPII rules should not apply to dispositions of common shares because we will not ourselves be directly engaged in the insurance business; however, the RPII provisions have never been interpreted by the courts or the U.S. Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form, what changes or clarifications might ultimately be made thereto, or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts, or otherwise, might have retroactive effect. The U.S. Treasury Department has authority to impose, among other things, additional reporting requirements with respect to RPII. Accordingly, the meaning of the RPII provisions and the application thereof to Assured Guaranty and AG Re is uncertain.

U.S. Persons who hold common shares will be subject to adverse tax consequences if we are considered to be a Passive Foreign Investment Company (PFIC) for U.S. federal income tax purposes.

If Assured Guaranty is considered a PFIC for U.S. federal income tax purposes, a U.S. person who owns any shares of Assured Guaranty will be subject to adverse tax consequences, including subjecting the investor to greater tax liability than might otherwise apply and subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed, which could materially adversely affect your investment. We believe that Assured Guaranty is not, and we currently do not expect Assured Guaranty to become, a PFIC for U.S. federal income tax purposes; however, we cannot assure you that Assured Guaranty will not be deemed a PFIC by the IRS. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

Changes in U.S. federal income tax law could materially adversely affect an investment in our common shares.

U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States, is a PFIC, or whether U.S. Persons would be required to include in their gross income the subpart F income of a CFC or RPII are subject to change, possibly on a retroactive basis. There currently are no regulations regarding the application of the PFIC rules to insurance companies, and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when, or in what form such regulations or pronouncements may be implemented or made, or whether such guidance will have a retroactive effect.

The Organization for Economic Cooperation and Development and the European Union are considering measures that might increase our taxes and reduce our net income.

The Organization for Economic Cooperation and Development (the OECD) has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD s report dated April 18, 2002 and updated as of June 2004 and November 2005 via a Global Forum, Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We and our subsidiaries currently occupy approximately 62,000 square feet of leased office space in Bermuda, New York and London. Management believes that the office space is adequate for its current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

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 these matters, individually or in the aggregate, will not have a material adverse effect on the Company s financial position, results of operations or liquidity, although an adverse resolution of a number of these items could have a material adverse effect on the Company s results of operations or liquidity in a particular quarter or fiscal year.

In the ordinary course of their respective businesses, certain of our subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods. The amounts, if any, the Company will recover in these proceedings are uncertain, although 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.

During 2006, the Company s wholly owned subsidiary, Assured Guaranty Re Overseas Ltd. (AGRO), and a number of other parties, completed various settlements with defendants in the *In re: National Century Financial Enterprises Inc. Investment Litigation* now pending in the United States District Court for the Southern District of Ohio - Eastern District. AGRO received approximately $13.5 million (pre-tax) in 2006, from the settlements. AGRO originally paid claims in 2003 of approximately $41.7 million (pre-tax) related to National Century Financial Enterprises Inc. To date, including the settlements described above, the Company has recovered $18.8 million (pre-tax). These are a partial settlement of the litigation, and the litigation will continue against other parties.

In April 2005, Assured Guaranty Corp. (AGC) received a Notice of Order to Preserve (Order) from the Office of the Commissioner of Insurance, State of Georgia (Commissioner). The Order was directed to ACE Limited, and all affiliates and requires the preservation of documents and other items related to finite insurance and a broad group of other insurance and reinsurance agreements. Also in April, AGC, and numerous other insurers, received a subpoena from the Commissioner related to the initial phase of the Commissioner s investigation into finite-risk transactions. The subpoena requested information on AGC s assumed and ceded reinsurance contracts in force during 2004. AGC provided the required information in response to the subpoena in January 2006 and has not been asked by the Commissioner for any further information.

On April 28, 2004 the Company entered into a quota share retrocession agreement with ACE INA Overseas Insurance Company Ltd. (AIOIC), a subsidiary of ACE, whereby it ceded 100% of any potential losses associated with an action filed by World Omni Financial Corp. (World Omni) against AG Intermediary Inc. and AGRO, subsidiaries of the Company, for a premium of $32.2 million, which was retained by the Company on a funds withheld basis. The matter was settled on December 15, 2005 between AIOIC and World Omni. Upon settlement, the Company paid its $34.4 million funds withheld liability to AIOIC. Also in connection with the settlement the Company released $54.2 million of reinsurance recoverables and loss and loss adjustment expense reserves, representing its entire obligation to World Omni.

In 2005 AGRO, settled claims brought against three defendants *In re: CFS-Related Securities Fraud Litigation* in the United States District Court for the Northern District of Oklahoma. The proceeds of the settlements was $71.0 million. The settlements resolved claims relating to the issuance of asset-backed debt securities by entities sponsored by Commercial Financial Services, Inc. (CFS), a now defunct Tulsa, Oklahoma-based collector of defaulted credit card debt. Assured Guaranty brought the claims as part of a multi-plaintiff group pursuant to its rights as a reinsurer of financial guaranty insurance policies issued in 1997 and 1998.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

Executive Officers of the Company

The table below sets forth the names, ages, positions and business experience of the executive officers of Assured Guaranty Ltd.

Name	Age	Position(s)
Dominic J. Frederico	54	President and Chief Executive Officer; Deputy Chairman
Michael J. Schozer	49	President of Assured Guaranty Corp.
Robert B. Mills	57	Chief Financial Officer
James M. Michener	54	General Counsel and Secretary
Robert A. Bailenson	40	Chief Accounting Officer

Dominic J. Frederico has been President and Chief Executive Officer of Assured Guaranty since December 2003. Mr. Frederico served as Vice Chairman of ACE from June 2003 until April 2004 and served as President and Chief Operating Officer of ACE and Chairman of ACE INA Holdings, Inc. (ACE INA) from November 1999 to June 2003. Mr. Frederico was a director of ACE since 2001, but retired from that board when his term expired on May 26, 2005. Mr. Frederico has also served as Chairman, President and Chief Executive Officer of ACE INA from May 1999 through November 1999. Mr. Frederico previously served as President of ACE Bermuda Insurance Ltd. (ACE Bermuda) from

July 1997 to May 1999, Executive Vice President, Underwriting from December 1996 to July 1997, and as Executive Vice President, Financial Lines from January 1995 to December 1996. Prior to joining ACE, Mr. Frederico spent 13 years working for various subsidiaries of American International Group (AIG). Mr. Frederico completed his employment at AIG after serving as Senior Vice President and Chief Financial Officer of AIG Risk Management. Before that, Mr. Frederico was Executive Vice President and Chief Financial Officer of UNAT, a wholly owned subsidiary of AIG headquartered in Paris, France.

Michael J. Schozer has been President of Assured Guaranty Corp. since December 2003. Mr. Schozer was Managing Director Structured Finance and Credit Derivatives of Ambac Assurance Corporation from 1996 to December 2003 where he was also a member of Ambac s senior credit committee.

Robert B. Mills has been Chief Financial Officer of Assured Guaranty since January 2004. Mr. Mills was Managing Director and Chief Financial Officer Americas of UBS AG and UBS Investment Bank from April 1994 to January 2004 where he was also a member of the Investment Bank Board of Directors. Previously, Mr. Mills was with KPMG from 1971 to 1994 where his responsibilities included being partner-in-charge of the Investment Banking and Capital Markets practice.

James M. Michener has been General Counsel and Secretary of Assured Guaranty since February 2004. Mr. Michener was General Counsel and Secretary of Travelers Property Casualty Corp. from January 2002 to February 2004. From April 2001 to January 2002, Mr. Michener served as general counsel of Citigroup s Emerging Markets business. Prior to joining Citigroup s Emerging Markets business, Mr. Michener was General Counsel of Travelers Insurance from April 2000 to April 2001 and General Counsel of Travelers Property Casualty Corp. from May 1996 to April 2000.

Robert A. Bailenson has been Chief Accounting Officer of Assured Guaranty since May 2005 and has been with Assured Guaranty and its predecessor companies since 1990. In addition to this position, Mr. Bailenson serves as the Chief Accounting Officer of the Company s subsidiary, Assured Guaranty Corp; a position he has held since 2003. He was Chief Financial Officer and Treasurer of Assured Guaranty Re Ltd. from 1999 until 2003 and was previously the Assistant Controller of Capital Re Corp., which was acquired by ACE Limited in 1999.

Information pertaining to this item is incorporated by reference to the sections entitled Proposal No. 1:Election of Directors , Corporate Governance-Did our Officers and Directors Comply with Section 16(a) Beneficial Ownership Reporting in 2006? , Corporate Governance- How are Directors Nominated? , Corporate Governance- The Committees of the Board The Audit Committee of the definitive proxy statement for the Annual General Meeting of Shareholders to be held May 3, 2007, which involves the election of directors and will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is listed on the New York Stock Exchange under symbol AGO. The table below sets forth, for the calendar quarters indicated, the reported high and low sales prices and amount of any cash dividends declared:

	2006			2005		
	Sales Price		Cash	Sales Price		Cash
	High	Low	Dividends	High	Low	Dividends
First Quarter	$ 27.45	$ 24.64	$ 0.035	$ 19.92	$ 17.51	$ 0.03
Second Quarter	26.03	23.50	0.035	23.48	17.31	0.03
Third Quarter	27.40	24.40	0.035	24.52	21.33	0.03
Fourth Quarter	27.43	24.40	0.035	27.42	21.45	0.03

On February 12, 2007, the closing price for our common stock on NYSE was $26.77, and the approximate number of shareholders of record at the close of business on that date was 3,049.

The Company is a holding company whose principal source of income is net investment income and dividends from its operating subsidiaries. The ability of the operating subsidiaries to pay dividends to us and our ability to pay dividends to our shareholders, are each subject to legal and regulatory restrictions. The declaration and payment of future dividends will be at the discretion of the Board of Directors and will be dependent upon the profits and financial requirements of Assured Guaranty Ltd. and other factors, including legal restrictions on the payment of dividends and such other factors as the Board of Directors deems relevant. For more information concerning our dividends, please refer to Item 7 under caption Liquidity and Capital Resources and Note 13 Insurance Regulations to the consolidated financial statements in Item 8 of this Form 10-K.

On May 4, 2006, the Company s Board of Directors approved a share repurchase program for 1.0 million common shares. Share repurchases take place at management s discretion depending on market conditions. During 2006 we repurchased approximately 0.8 million common shares at an average price of $24.79.

The following table reflects the Company share repurchase activity during the three months ended December 31, 2006.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program	(d) Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1 October 31	391 (1)	$ 26.30		171,460
November 1 November 30	21,507 (2)	$ 25.10	21,000	150,460
December 1 December 31	5,692,599 (3)	$ 26.35		150,460
Total	5,714,497	$ 26.35	21,000	

(1) 391 shares were repurchased from employees in connection with the payment of withholding taxes due in connection with the vesting of restricted stock awards.

(2) 507 shares were repurchased from employees in connection with the payment of withholding taxes due in connection with the vesting of restricted stock awards.

(3) Assured Guaranty US Holdings Inc., a subsidiary of Assured Guaranty Ltd., entered into an agreement on December 20, 2006 with ACE Bermuda Insurance Ltd., a subsidiary of ACE Limited to purchase 5,692,599 of Assured Guaranty Ltd. s common shares for $150.0 million.

Set forth below are a line graph and a table comparing the dollar change in the cumulative total shareholder return on the Company s Common Shares from April 22, 2004 through December 31, 2006 as compared to the cumulative total return of the Standard & Poor s 500 Stock Index and the cumulative total return of the Standard & Poor s 500 Financials Index. The chart and table depict the value on April 22, 2004, December 31, 2004, December 31, 2005 and December 31, 2006 of a $100 investment made on April 22, 2004, with all dividends reinvested.

	Assured Guaranty	**S&P 500 Index**	**S&P 500 Financial Index**
04/22/04	$ 100.00	$ 100.00	$ 100.00
12/31/04	$ 109.67	$ 107.65	$ 108.25
12/31/05	$ 142.36	$ 112.93	$ 115.29
12/31/06	$ 149.98	$ 130.77	$ 137.45

Source: Bloomberg

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read together with the other information contained in this Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	($ in millions, except per share amounts)				
Statement of operations data:*					
Gross written premiums	$ 325.7	$ 252.1	$ 190.9	$ 349.2	$ 417.2
Net written premiums(1)	318.7	217.3	79.6	491.5	352.5
Net earned premiums	206.7	198.7	187.9	310.9	247.4
Net investment income	111.5	96.8	94.8	96.3	97.2
Net realized investment (losses) gains	(2.0)	2.2	12.0	5.5	7.9
Unrealized gains (losses) on derivative financial instruments	5.5	(3.5)	52.5	98.4	(54.2)
Other income	0.4	0.2	0.8	1.2	3.6
Total revenues	322.1	294.5	347.9	512.3	302.0
Loss and loss adjustment expenses	(6.8)	(69.6)	(32.0)	144.6	120.3
Profit commission expense	9.5	12.9	15.5	9.8	8.5
Acquisition costs	45.0	45.3	50.9	64.9	48.4
Operating expenses	68.0	59.0	67.8	41.0	31.0
Other expense(2)	2.5	3.7	1.6		
Interest expense	13.8	13.5	10.7	5.7	10.6
Total expenses	132.1	64.9	114.6	266.1	218.8
Income before provision for income taxes	190.0	229.6	233.3	246.2	83.2
Provision for income taxes	30.2	41.2	50.5	31.7	10.6
Net income	$ 159.7	$ 188.4	$ 182.8	$ 214.5	$ 72.6
Earnings per share:(3)					
Basic	$ 2.18	$ 2.55	$ 2.44	$ 2.86	$ 0.97
Diluted	$ 2.15	$ 2.53	$ 2.44	$ 2.86	$ 0.97
Dividends per share	$ 0.14	$ 0.12	$ 0.06	$	$

* Some amounts may not add due to rounding.

	Year Ended December 31, 2006	2005	2004	2003	2002
	($ in millions, except per share amounts)				
Balance sheet data (end of period):					
Investments and cash	$ 2,469.9	$ 2,256.0	$ 2,157.9	$ 2,222.1	$ 2,061.9
Prepaid reinsurance premiums	7.5	12.5	15.2	11.0	179.5
Total assets	2,935.3	2,696.3	2,703.7	2,879.4	2,769.9
Unearned premium reserves	644.5	537.1	521.3	625.4	613.3
Reserves for losses and loss adjustment expenses	120.6	128.4	236.2	544.2	508.9
Long-term debt	347.1	197.3	197.4	75.0	75.0
Total liabilities	1,284.6	1,034.8	1,176.1	1,441.8	1,512.7
Accumulated other comprehensive income	41.9	45.8	79.0	81.2	89.0
Shareholders equity	1,650.8	1,661.5	1,527.6	1,437.6	1,257.2
Book value per share(3)	24.44	22.22	20.19	19.17	16.76
GAAP financial information:					
Loss and loss adjustment expense ratio(4)	(3.3)%	(35.0)%	(17.0)%	46.5%	48.6%
Expense ratio(5)	59.2%	58.9%	65.4%	37.2%	35.5%
Combined ratio	55.9%	23.9%	48.4%	83.7%	84.1%
Combined statutory financial information:					
Contingency reserve(6)	$ 645.8	$ 572.9	$ 491.8	$ 410.5	$ 315.5
Policyholders surplus(7)	1,010.0	977.3	906.2	911.3	884.1
Additional financial guaranty information (end of period):					
Net in-force business (principal and interest)(8)	$ 180,174	$ 145,694	$ 136,120	$ 130,047	$ 124,082
Net in-force business (principal only)(8)	132,296	102,465	95,592	87,524	80,394

(1) Net written premiums exceeded gross written premiums for the year ended December 31, 2003 due to $154.8 million of return premium from two terminated ceded reinsurance contracts.

(2) Amounts for 2005 represent investment banking fees and put option premiums associated with Assured Guaranty Corp. s $200.0 million committed capital securities, while 2006 includes put option premiums. During 2004, a goodwill impairment of $1.6 million was recognized for the trade credit business which the Company exited as part of its IPO strategy. The goodwill arose from ACE s acquisition of Capital Re Corporation as of December 31, 1999. Beginning January 1, 2002, goodwill is no longer amortized, but rather is evaluated for impairment at least annually in accordance with FAS No. 142, Goodwill and Other Intangible Assets. No such impairment was recognized in the years ended December 31, 2006, 2005, 2003 and 2002.

(3) Per share data for 2003 and 2002 are based on 75,000,000 shares outstanding prior to the IPO.

(4) The loss and loss adjustment expense ratio is calculated by dividing loss and loss adjustment expenses by net earned premiums.

(5) The expense ratio is calculated by dividing the sum of profit commission expense, acquisition costs and operating expenses by net earned premiums.

(6) Under U.S. statutory accounting principles, financial guaranty and mortgage guaranty insurers are required to establish contingency reserves based on a specified percentage of premiums. A contingency reserve is an additional liability established to protect policyholders against the effects of adverse economic developments or cycles or other unforeseen circumstances.

(7) Combined policyholders surplus represents the addition of our combined U.S. based statutory surplus and our Bermuda based statutory surplus.

(8) The Company s 2006 reinsurance par outstanding on facultative business is reported on a current quarter basis while 2005 and prior years are reported on a one-quarter lag.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes which appear elsewhere in this Form 10-K. It contains forward looking statements that involve risks and uncertainties. Please see Forward Looking Statements for more information. Our actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those discussed below and elsewhere in this Form 10-K, particularly under the headings Risk Factors and Forward Looking Statements.

Executive Summary

Assured Guaranty Ltd. is a Bermuda based holding company which provides, through its operating subsidiaries, credit enhancement products to the public finance, structured finance and mortgage markets. We apply our credit expertise, risk management skills and capital markets experience to develop insurance, reinsurance and credit derivative products that meet the credit enhancement needs of our customers. We market our products directly and through financial institutions. We serve the U.S. and international markets.

Our financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. The other segment consists of a number of businesses that we have exited including equity layer credit protection, trade credit reinsurance, title reinsurance and auto residual value reinsurance.

We derive our revenues principally from premiums from our insurance, reinsurance and credit derivative businesses, net investment income, net realized gains and losses from our investment portfolio and unrealized gains and losses on derivative financial instruments. Our premiums are a function of the amount and type of contracts we write as well as prevailing market prices. We receive premiums on an upfront basis when the policy is issued or the contract is executed and/or on an installment basis over the life of the applicable transaction.

Investment income is a function of invested assets and the yield that we earn on those assets. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of our invested assets. In addition, we could realize capital losses on securities in our investment portfolio from other than temporary declines in market value as a result of changing market conditions, including changes in market interest rates, and changes in the credit quality of our invested assets.

Unrealized gains and losses on derivative financial instruments are a function of changes in the estimated fair value of our credit derivative contracts. We expect these unrealized gains and losses to fluctuate primarily based on changes in credit spreads and the credit quality of the referenced entities. We generally hold these derivative contracts to maturity. Where we hold a derivative contract to maturity, the cumulative unrealized gains and losses will net to zero if we incur no credit losses on that contract.

Our expenses consist primarily of losses and loss adjustment expenses (LAE), profit commission expense, acquisition costs, operating expenses, interest expense and income taxes. Losses and LAE are a function of the amount and types of business we write. Losses and LAE are based upon estimates of the ultimate aggregate losses inherent in the portfolio. The risks we take have a low expected frequency of loss and are investment grade at the time we accept the risk. Prior to the initial public offering (IPO), the majority of the risks we underwrote were investment grade, however some risks accepted were below investment grade. Profit commission expense represents payments made to ceding companies generally based on the profitability of the business reinsured by us. Acquisition costs are related to the production of new business. Certain acquisition costs that vary with and are directly attributable to the production of new business are deferred and recognized over the period in which the related premiums are earned. Operating expenses consist primarily of salaries and other employee related costs, various outside service providers, rent and related costs and other expenses related to maintaining a holding company structure. These costs do not vary with the amount of premiums written. Interest expense is a function of outstanding debt and the contractual interest rate related to that debt. Income taxes are a function of our profitability and the applicable tax rate in the various jurisdictions in which we do business.

Critical Accounting Estimates

Our consolidated financial statements include amounts that, either by their nature or due to requirements of accounting principles generally accepted in the United States of America (GAAP), are determined using estimates and assumptions. The actual amounts realized could ultimately be materially different from the amounts currently provided for in our consolidated financial statements. We believe the items requiring the most inherently subjective and complex estimates to be reserves for losses and LAE, valuation of derivative financial instruments, valuation of investments, other than temporary impairments of investments, premium revenue recognition, deferred acquisition costs and deferred income taxes. An understanding of our accounting policies for these items is of critical importance to understanding our consolidated financial statements. The following discussion provides more information regarding the estimates and assumptions used for these items and should be read in conjunction with the notes to our consolidated financial statements.

Reserves for Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses for non-derivative transactions in our financial guaranty direct, financial guaranty assumed reinsurance and mortgage guaranty business include case reserves and portfolio reserves. See the Valuation of Derivative Financial Instruments of the Critical Accounting Estimates section for more information on our derivative transactions. Case reserves are established when there is significant credit deterioration on specific insured obligations and the obligations are in default or default is probable, not necessarily upon non-payment of principal or interest by an insured. Case reserves represent the present value of expected future loss payments and LAE, net of estimated recoveries, but before considering ceded reinsurance. This reserving method is different from case reserves established by traditional property and casualty insurance companies, which establish case reserves upon notification of a claim and establish incurred but not reported (IBNR) reserves for the difference between actuarially estimated ultimate losses and recorded case reserves. Financial guaranty insurance and assumed reinsurance case reserves and related salvage and subrogation, if any, are discounted at 6%, which is the approximate taxable equivalent yield on our investment portfolio in all periods presented. When the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment, it records salvage and subrogation as an asset, based on the expected level of recovery. Such amounts are included in the Company s balance sheet within Other assets.

We record portfolio reserves in our financial guaranty direct, financial guaranty assumed reinsurance and mortgage guaranty business. Portfolio reserves are established with respect to the portion of our business for which case reserves have not been established. Portfolio reserves are not established for quota share mortgage insurance contract types, all of which are in run-off; rather Case and IBNR reserves have been established for these contracts.

Portfolio reserves are not established based on a specific event; rather they are calculated by aggregating the portfolio reserve calculated for each individual transaction. Individual transaction reserves are calculated on a quarterly basis by multiplying the par in-force by the product of the ultimate loss and earning factors without regard to discounting. The ultimate loss factor is defined as the frequency of loss multiplied by the severity of loss, where the frequency is defined as the probability of default for each individual issue. The earning factor is inception to date earned premium divided by the estimated ultimate written premium for each transaction. The probability of default is estimated from historical rating agency data and is based on the transaction s credit rating, industry sector and time until maturity. The severity is defined as the complement of historical recovery/salvage rates gathered by the rating agencies of defaulting issues and is based on the industry sector.

Portfolio reserves are recorded gross of reinsurance. We have not ceded any amounts under these reinsurance contracts, as our recorded portfolio reserves have not exceeded our contractual retentions, required by said contracts.

The Company records an incurred loss that is reflected in the statement of operations upon the establishment of portfolio reserves. When we initially record a case reserve, we reclassify the corresponding portfolio reserve already recorded for that credit within the balance sheet. The difference between the initially recorded case reserve and the reclassified portfolio reserve is recorded as a charge in our statement of operations. It would be a remote occurrence when the case reserve is not greater than the reclassified portfolio reserve. Any subsequent change in portfolio reserves or the initial case reserves are recorded quarterly as a charge or credit in our statement of operations in the period such estimates change. Due to the inherent uncertainties of estimating loss and LAE reserves, actual experience may differ from the estimates reflected in our consolidated financial statements, and the differences may be material.

The chart below demonstrates the portfolio reserve s sensitivity to frequency and severity assumptions. The change in these estimates represent management s estimate of reasonably possible material changes and are based upon our analysis of historical experience. Portfolio reserves were recalculated with changes made to the default and severity assumptions. In all scenarios, the starting point used to test the portfolio reserve s sensitivity to the changes in the frequency and severity assumptions was the weighted average frequency and severity by rating and asset class of our insured portfolio. Overall the weighted average default frequency was 0.82% and the weighted average severity was 18.0% at December 31, 2006. For example, in the first scenario where the frequency was increased by 5.0%, each transaction s contribution to the portfolio reserve was recalculated by adding 0.04% (i.e. 5.0% multiplied by 0.82%) to the individual transaction s default frequency.

	Portfolio Reserve	Reserve Increase	Percentage Change
	(in thousands of U.S. dollars)		
Portfolio reserve as of December 31, 2006	$ 69,238	$	
5% Frequency Increase	73,580	4,342	6.27 %
10% Frequency Increase	77,921	8,683	12.54 %
5% Severity Increase	72,228	2,990	4.32 %
10% Severity Increase	75,217	5,979	8.64 %
5% Frequency and Severity Increase	76,806	7,568	10.93 %

In addition to analyzing the sensitivity of our portfolio reserves to possible changes in frequency and severity, we have also performed a sensitivity analysis on our financial guaranty and mortgage guaranty case reserves. Case reserves may change from our original estimate due to changes in severity factors. An actuarial analysis of the historical development of our case reserves shows that it is reasonably possible that our case reserves could develop by as much as ten percent. This analysis was performed by separately evaluating the historical development by comparing the initial case reserve established to the subsequent development in that case reserve, excluding the effects of discounting, for each sector in which we currently have significant case reserves, and estimating the possible future development. Based on this analysis, it is reasonably possible that our current financial guaranty and mortgage guaranty case reserves of $37.2 million could increase by approximately $3.0 million to $4.0 million in the future. This would cause an increase in incurred losses on our statement of operations and comprehensive income.

A sensitivity analysis is not appropriate for our other segment reserves and our mortgage guaranty IBNR, since the amounts are fully reserved or reinsured.

We also record IBNR reserves for our mortgage guaranty and other segments. IBNR is an estimate of losses for which the insured event has occurred but the claim has not yet been reported to us. In establishing IBNR, we use traditional actuarial methods to estimate the reporting lag of such claims based on historical experience, claim reviews and information reported by ceding companies. We record IBNR for mortgage guaranty quota-share reinsurance contracts, all of which are in run-off, within our mortgage guaranty segment. We also record IBNR for title reinsurance, auto residual value reinsurance and trade credit reinsurance within our other segment. The other segment represents lines of business we have exited or sold prior to the IPO.

For all other mortgage guaranty transactions we record portfolio reserves in a manner consistent with our financial guaranty business. While other mortgage guaranty insurance companies do not record portfolio reserves, rather just case and IBNR reserves, we record portfolio reserves because we write business on an excess of loss basis, while other industry participants write quota share or first layer loss business. We manage and underwrite this business in the same manner as our financial guaranty insurance and reinsurance business because they have similar characteristics as insured obligations of mortgage-backed securities.

Statement of Financial Accounting Standards (FAS) No. 60, Accounting and Reporting by Insurance Enterprises (FAS 60) is the authoritative guidance for an insurance enterprise. FAS 60 prescribes differing reserving methodologies depending on whether a contract fits within its definition of a short-duration contract or a long-duration contract. Financial guaranty contracts have elements of long-duration insurance contracts in that they are irrevocable and extend over a period that may exceed 30 years or more, but for regulatory purposes are reported as property and liability insurance, which are normally considered short-duration contracts. The short-duration and long-duration classifications have different methods of accounting for premium revenue and contract liability recognition. Additionally, the accounting for deferred acquisition costs (DAC) could be different under the two methods.

We believe the guidance of FAS 60 does not expressly address the distinctive characteristics of financial guaranty insurance, so we also apply the analogous guidance of Emerging Issues Task Force (EITF) Issue No. 85-20, Recognition of Fees for Guaranteeing a Loan (EITF 85-20), which provides guidance relating to the recognition of fees for guaranteeing a loan, which has similarities to financial guaranty insurance contracts. Under the guidance in EITF 85-20, the guarantor should assess the probability of loss on an ongoing basis to determine if a liability should be recognized under FAS No. 5, Accounting for Contingencies (FAS 5). FAS 5 requires that a loss be recognized where it is probable that one or more future events will occur confirming that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The following tables summarize our reserves for losses and LAE by segment, by type of reserve and by segment and type of reserve as of the dates presented. For an explanation of changes in these reserves see Consolidated Results of Operations.

	As of December 31,	
	2006	**2005**
	($ in millions)	
By segment:		
Financial guaranty direct	$ 9.3	$ 13.1
Financial guaranty reinsurance	94.8	93.2
Mortgage guaranty	2.3	7.0
Other	14.2	15.1
Total	$ 120.6	$ 128.4

	As of December 31,	
	2006	2005
	($ in millions)	
By type of reserve:		
Case	$ 44.0	$ 53.1
IBNR	7.4	11.6
Portfolio	69.2	63.7
Total	$ 120.6	$ 128.4

	As of December 31, 2006				
	Financial Guaranty Direct	Financial Guaranty Reinsurance	Mortgage Guaranty	Other	Total
	($ in millions)				
By segment and type of reserve:					
Case	$ 1.0	$ 36.1	$ 0.1	$ 6.8	$ 44.0
IBNR				7.4	7.4
Portfolio	8.3	58.7	2.2		69.2
Total	$ 9.3	$ 94.8	$ 2.3	$ 14.2	$ 120.6

	As of December 31, 2005				
	Financial Guaranty Direct	Financial Guaranty Reinsurance	Mortgage Guaranty	Other	Total
	($ in millions)				
By segment and type of reserve:					
Case	$ 4.5	$ 40.7	$ 0.3	$ 7.6	$ 53.1
IBNR			4.1	7.5	11.6
Portfolio	8.6	52.5	2.6		63.7
Total	$ 13.1	$ 93.2	$ 7.0	$ 15.1	$ 128.4

The following table sets forth the financial guaranty in-force portfolio by underlying rating:

Ratings(1)	As of December 31, 2006 Net par outstanding(2) (in billions of U.S. dollars)	% of Net par outstanding	As of December 31, 2005 Net par outstanding(2)	% of Net par outstanding
AAA	$ 57.0	43.1 %	$ 34.5	33.7 %
AA	23.0	17.4 %	20.0	19.5 %
A	32.8	24.9 %	30.3	29.5 %
BBB	18.2	13.7 %	16.4	16.0 %
Below investment grade	1.3	0.9 %	1.3	1.3 %
Total exposures	$ 132.3	100.0 %	$ 102.5	100.0 %

(1) These ratings represent the Company s internal assessment of the underlying credit quality of the insured obligations. Our scale is comparable to that of the nationally recognized rating agencies.

(2) The Company s 2006 reinsurance par outstanding on facultative business is reported on a current quarter basis while 2005 is reported on a one-quarter lag.

Our surveillance department is responsible for monitoring our portfolio of credits and maintains a list of closely monitored credits (CMC). The closely monitored credits are divided into four categories: Category 1 (low priority; fundamentally sound, greater than normal risk); Category 2 (medium priority; weakening credit profile, may result in loss); Category 3 (high priority; claim/default probable, case reserve established); Category 4 (claim paid, case reserve established for future payments). The closely monitored credits include all below investment grade (BIG) exposures where there is a material amount of exposure (generally greater than $10.0 million) or a material risk of the Company incurring a loss greater than $0.5 million. The closely monitored credits also include investment grade (IG) risks where credit quality is deteriorating and where, in the view of the Company, there is significant potential that the risk quality will fall below investment grade. As of December 31, 2006, the closely monitored credits include approximately 97% of our BIG exposure, and the remaining BIG exposure of $34.4 million is distributed across 68 different credits. As of December 31, 2005, the closely monitored credits include approximately 96% of our BIG exposure, and the remaining BIG exposure of $55.2 million is distributed across 103 different credits. Other than those excluded BIG credits, credits that are not included in the closely monitored credit list are categorized as fundamentally sound risks.

The following table provides financial guaranty net par outstanding by credit monitoring category as of December 31, 2006 and 2005:

	As of December 31, 2006			
Description:	**Net Par Outstanding(3) ($ in millions)**	**% of Net Par Outstanding**	**# of Credits in Category**	**Case Reserves**
Fundamentally sound risk(1)	$ 130,944	99.0 %		
Closely monitored credits:				
Category 1	855	0.6 %	43	$
Category 2	318	0.2 %	13	
Category 3	123	0.1 %	18	18
Category 4	22		13	14
CMC total(2)	1,318	1.0 %	87	32
Other below investment grade risk	34		68	
Total	$ 132,296	100.0 %		$ 32

(1) As of December 31, 2006, Category 1 contains 6 credits with net par outstanding of $97.8 million and Category 2 contains 3 credits with net par outstanding of $9.7 million related to Hurricane Katrina.

(2) Percent total does not add due to rounding.

(3) The Company s 2006 reinsurance par outstanding on facultative business is reported on a current quarter basis while 2005 is reported on a one-quarter lag.

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Description:	As of December 31, 2005 Net Par Outstanding(2) ($ in millions)	% of Net Par Outstanding	# of Credits in Category	Case Reserves
Fundamentally sound risk(1)	$ 100,951	98.6 %		
Closely monitored credits:				
Category 1	872	0.9 %	36	$
Category 2	433	0.4 %	22	
Category 3	131	0.1 %	15	16
Category 4	23		11	15
CMC total	1,459	1.4 %	84	31
Other below investment grade risk	55		103	
Total	$ 102,465	100.0 %		$ 31

(1) As of December 31, 2005, Category 1 contains 4 credits with net par outstanding of $44.8 million and Category 2 contains 7 credits with net par outstanding of $80.6 million related to Hurricane Katrina.

(2) The Company s 2006 reinsurance par outstanding on facultative business is reported on a current quarter basis while 2005 is reported on a one-quarter lag.

The following table summarizes movements in CMC exposure by risk category:

Net Par Outstanding	Category 1 ($ in millions)	Category 2	Category 3	Category 4	Total CMC
Balance, December 31, 2005	$ 872	$ 433	$ 131	$ 23	$ 1,459
Less: Amortization	211	(20)	46	3	240
Add: Additions from:					
First time on CMC	408	3	16		427
Upgrades	143	16			159
Downgrades		37	95	2	134
Less: Deletions from:					
Upgrades	320	96	71		487
Downgrades	37	95	2		134
Net Change	(17)	(115)	(8)	(1)	(141)
Balance, December 31, 2006	$ 855	$ 318	$ 123	$ 22	$ 1,318

Industry Methodology

The Company s is aware that there are certain differences regarding the measurement of portfolio loss liabilities among companies in the financial guaranty industry. In January and February 2005, the Securities and Exchange Commission (SEC) staff had discussions concerning these differences with a number of industry participants. Based on those discussions, in June 2005, the Financial Accounting standards Board (FASB) staff decided additional guidance is necessary regarding financial guaranty contracts. When the FASB staff reaches a conclusion on this issue the Company and the rest of the financial guaranty industry may be required to change some aspects of their loss reserving policies, but the Company cannot currently assess how the FASB or SEC staff s ultimate resolution of this issue will impact our reserving policy or other balances, i.e., premiums and DAC. Until the issue is resolved, the Company intends to continue to apply its existing policy with respect to the establishment of both case and portfolio reserves.

Valuation of Derivative Financial Instruments

The Company follows FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133) and FAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149), which establishes accounting and reporting standards for derivative instruments. FAS 133 and FAS 149 require recognition of all derivatives on the balance sheet at fair value.

We issue credit derivative financial instruments, which prior to 2004 included a few index based derivative financial instruments, that we view as an extension of our financial guaranty business but which do not qualify for the financial guaranty insurance scope exception under FAS 133 and FAS 149 and therefore are reported at fair value, with changes in fair value included in our earnings.

Since we view these derivative contracts as an extension of our financial guaranty business, we believe that the most meaningful presentation of these derivatives is to reflect revenue as earned premium, to record estimates of losses and LAE on specific credit events as incurred and to record changes in fair value as incurred. Reserves for losses and LAE are established on a similar basis as our insurance policies. Other changes in fair value are included in unrealized gains and losses on derivative financial instruments. We generally hold derivative contracts to maturity. However, in certain circumstances such as for risk management purposes or as a result of a decision to exit a line of business, we may decide to terminate a derivative contract prior to maturity. Where we hold a derivative contract to maturity, the cumulative unrealized gains and losses will net to zero if we incur no credit losses on that contract. However, in the event that we terminate a derivative contract prior to maturity the unrealized gain or loss will be realized through premiums earned and losses incurred.

The fair value of these instruments depends on a number of factors including credit spreads, changes in interest rates, recovery rates and the credit ratings of referenced entities. Where available, we use quoted market prices to determine the fair value of these credit derivatives. If the quoted prices are not available, particularly for senior layer collateralized debt obligations (CDOs), the fair value is estimated using valuation models for each type of credit protection. These models may be developed by third parties, such as rating agencies, or developed internally based on market conventions for similar transactions, depending on the circumstances. These models and the related assumptions are continuously reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely market information. The majority of our single name credit derivatives were valued using third party market quotes. These exposures were substantially liquidated in the first quarter of 2005 as we are no longer involved in the single name credit derivatives business. Our exposures to CDOs are typically valued using a combination of rating agency models and internally developed models.

Valuation models include the use of management estimates and current market information. Management is also required to make assumptions on how the fair value of derivative instruments is affected by current market conditions. Management considers factors such as current prices charged for similar agreements, performance of underlying assets, and our ability to obtain reinsurance for our insured obligations. Due to the inherent uncertainties of the assumptions used in the valuation models to determine the fair value of these derivative products, actual experience may differ from the estimates reflected in our consolidated financial statements, and the differences may be material.

During the first quarter 2005 review of its valuation models, management identified a limitation in its valuation models highlighted by the then widening credit spread environment. Management adjusted its valuation models for this limitation in the first quarter 2005 resulting in an adjustment to unrealized gains on derivative financial instruments of $4.3 million, net of income taxes. Management continues to perform additional analysis, as necessary, to address market anomalies and their effect on its valuation models.

The fair value adjustment recognized in our statement of operations for the year ended December 31, 2006 was a $5.5 million gain compared with a $3.5 million loss for the year ended December 31, 2005 and a $52.5 million gain for the year ended December 31, 2004. The 2006 gain of $5.5 million primarily relates to the run-off of transactions and changes in credit spreads, the 2005 loss of $3.5 million primarily relates to the run-off of transactions and a slight widening in investment grade corporate spreads over that period, and the 2004 gain of $52.5 million primarily relates to an approximate 15-20% tightening in credit spreads.

Valuation of Investments

As of December 31, 2006, 2005 and 2004, we had total investments of $2.5 billion, $2.2 billion and $2.1 billion, respectively. The fair values of all of our investments are calculated from independent market quotations.

As of December 31, 2006, approximately 95% of our investments were long-term fixed maturity securities, and our portfolio had an average duration of 3.9 years, compared with 95% and 4.4 years as of December 31, 2005. Changes in interest rates affect the value of our fixed maturity portfolio. As interest rates fall, the fair value of fixed maturity securities increases and as interest rates rise, the fair value of fixed maturity securities decreases.

The following table summarizes the estimated change in fair value net of related income taxes on our investment portfolio as of December 31, 2006 based upon an assumed parallel shift in interest rates across the entire yield curve:

Change in Interest Rates	**Estimated Increase (Decrease) in Fair Value**
	($ in millions)
300 basis point rise	$ (280.6)
200 basis point rise	(185.2)
100 basis point rise	(90.5)
100 basis point decline	83.9
200 basis point decline	160.8
300 basis point decline	236.7

Other Than Temporary Impairments

We have a formal review process for all securities in our investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether scheduled interest payments are past due; and
- whether we have the ability and intent to hold the security for a sufficient period of time to allow for anticipated recoveries in fair value.

If we believe a decline in the value of a particular investment is temporary, we record the decline as an unrealized loss on our balance sheet in accumulated other comprehensive income in shareholders equity. If we believe the decline is other than temporary, we write down the carrying value of the investment and record a realized loss in our statement of operations. Our assessment of a decline in value includes management s current assessment of the factors noted above. If that assessment changes in the future, we may ultimately record a loss after having originally concluded that the decline in value was temporary.

We did not record any realized losses due to other than temporary declines in 2006, 2005 and 2004.

The following table summarizes the unrealized losses in our investment portfolio by type of security and the length of time such securities have been in a continuous unrealized loss position as of the dates indicated:

Length of Time in Continuous Unrealized Loss Position	As of December 31, 2006 Estimated Fair Value	As of December 31, 2006 Gross Unrealized Losses	As of December 31, 2005 Estimated Fair Value	As of December 31, 2005 Gross Unrealized Losses
	($ in millions)			
Municipal securities				
0-6 months	$ 88.6	$ (0.5)	$ 103.2	$ (0.9)
7-12 months			11.9	(0.3)
Greater than 12 months	24.0	(0.4)	13.1	(0.4)
	112.6	(0.9)	128.2	(1.6)
Corporate securities				
0-6 months	47.0	(0.2)	21.4	(0.4)
7-12 months	3.4		13.4	(0.2)
Greater than 12 months	48.7	(1.2)	16.8	(0.7)
	99.1	(1.4)	51.6	(1.3)
U.S. Government obligations				
0-6 months	20.2	(0.1)	160.5	(0.8)
7-12 months	32.9	(0.4)	8.7	(0.2)
Greater than 12 months	59.2	(0.9)	13.2	(0.4)
	112.3	(1.4)	182.4	(1.4)
Mortgage and asset-backed securities				
0-6 months	197.6	(1.7)	318.8	(4.7)
7-12 months	25.6	(0.3)	136.8	(2.6)
Greater than 12 months	382.7	(8.8)	89.7	(2.9)
	605.9	(10.8)	545.3	(10.2)
Total	$ 929.9	$ (14.5)	$ 907.5	$ (14.5)

The following table summarizes the unrealized losses in our investment portfolio by type of security and remaining time to maturity as of the dates indicated:

	As of December 31, 2006		As of December 31, 2005	
Remaining Time to Maturity	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
	($ in millions)			
Municipal securities				
Due in one year or less	$	$	$	$
Due after one year through five years	26.2	(0.1)	0.3	
Due after five years through ten years	43.2	(0.5)	60.1	(1.2)
Due after ten years	43.2	(0.3)	67.8	(0.4)
	112.6	(0.9)	128.2	(1.6)
Corporate securities				
Due in one year or less	13.0			
Due after one year through five years	55.1	(0.9)	44.3	(1.0)
Due after five years through ten years	25.1	(0.2)	4.2	
Due after ten years	5.9	(0.3)	3.1	(0.3)
	99.1	(1.4)	51.6	(1.3)
U.S. Government obligations				
Due in one year or less	8.6	(0.1)	57.8	(0.2)
Due after one year through five years	11.9	(0.1)	39.5	(0.3)
Due after five years through ten years	42.9	(0.5)	45.2	(0.6)
Due after ten years	48.9	(0.7)	39.9	(0.3)
	112.3	(1.4)	182.4	(1.4)
Mortgage and asset-backed securities	605.9	(10.8)	545.3	(10.2)
Total	$ 929.9	$ (14.5)	$ 907.5	$ (14.5)

The following table summarizes, for all securities sold at a loss through December 31, 2006 and 2005, the fair value and realized loss by length of time such securities were in a continuous unrealized loss position prior to the date of sale:

	Year Ended December 31,			
	2006		2005	
Length of Time in Continuous Unrealized Loss Position Prior to Sale	Estimated Fair Value	Gross Realized Losses	Estimated Fair Value	Gross Realized Losses
	($ in millions)			
Municipal securities				
0-6 months	$ 34.5	$ (0.2)	$ 20.8	$
7-12 months	22.8	(0.5)	5.5	(0.1)
Greater than 12 months	14.0	(0.6)	13.8	(0.4)
	71.3	(1.3)	40.1	(0.5)
Corporate securities				
0-6 months			5.3	
7-12 months			9.4	(0.2)
Greater than 12 months	2.0	(0.1)	14.1	(0.5)
	2.0	(0.1)	28.8	(0.7)
U.S. Government securities				
0-6 months	152.2	(2.1)	149.1	(1.0)
7-12 months	80.2	(0.7)	21.3	(0.2)
Greater than 12 months	7.1		0.1	
	239.5	(2.8)	170.5	(1.2)
Mortgage and asset-backed securities				
0-6 months	31.0	(0.2)	31.0	(0.3)
7-12 months	9.1	(0.1)	6.7	(0.1)
Greater than 12 months			10.0	(0.4)
	40.1	(0.3)	47.7	(0.8)
Total	$ 352.9	$ (4.5)	$ 287.1	$ (3.2)

Premium Revenue Recognition

Premiums are received either upfront or in installments. Upfront premiums are earned in proportion to the expiration of the amount at risk. Each installment premium is earned ratably over its installment period, generally one year or less. Premium earnings under both the upfront and installment revenue recognition methods are based upon and are in proportion to the principal amount guaranteed and therefore result in higher premium earnings during periods where guaranteed principal is higher. For insured bonds for which the par value outstanding is declining during the insurance period, upfront premium earnings are greater in the earlier periods thus matching revenue recognition with the underlying risk. For the years ended December 31, 2006, 2005 and 2004, approximately 58%, 49% and 66%, respectively, of our gross written premiums were received upfront, and 42%, 51% and 34%, respectively, were received in installments. The premiums are allocated in accordance with the principal amortization schedule of the related bond issue and are earned ratably over the amortization period. When an insured issue is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, the remaining unearned premium reserves are earned at that time. Unearned premium reserves represent the portion of premiums written that is applicable to the unexpired amount at risk of insured bonds.

In our reinsurance businesses, we estimate the ultimate written and earned premiums to be received from a ceding company at the end of each quarter and the end of each year because some of our ceding companies report premium data anywhere from 30 to 90 days after the end of the relevant period. Written premiums reported in our statement of operations are based upon reports received from ceding companies supplemented by our own estimates of premium for which ceding company reports have not yet been received. As of December 31, 2006, 2005 and 2004 the assumed premium estimate and related ceding commissions included in our consolidated financial statements are $25.1 million and $7.9 million, $14.3 million and $4.5 million and $30.4 million and $9.7 million, respectively. Key assumptions used to arrive at management s best estimate of assumed premiums are premium amounts reported historically and informal communications with ceding companies. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined. Historically, the differences have not been material. We do not record a provision for doubtful accounts related to our assumed premium estimate. Historically there have not been any material issues related to the collectibility of assumed premium. No provision for doubtful accounts related to our premium receivable was recorded for 2006, 2005 or 2004.

Deferred Acquisition Costs

Acquisition costs incurred, other than those associated with credit derivative products, that vary with and are directly related to the production of new business are deferred and amortized in relation to earned premiums. These costs include direct and indirect expenses such as ceding commissions, brokerage expenses and the cost of underwriting and marketing personnel. As of December 31, 2006 and 2005, we had deferred acquisition costs of $217.0 million and $193.4 million, respectively. Ceding commissions paid to primary insurers are the largest component of deferred acquisition costs, constituting 69% and 73% of total deferred acquisition costs as of December 31, 2006 and 2005, respectively. Management uses its judgment in determining what types of costs should be deferred, as well as what percentage of these costs should be deferred. We annually conduct a study to determine which operating costs vary with, and are directly related to, the acquisition of new business and qualify for deferral. Ceding commissions received on premiums we cede to other reinsurers reduce acquisition costs. Anticipated losses, LAE and the remaining costs of servicing the insured or reinsured business are considered in determining the recoverability of acquisition costs. Acquisition costs associated with credit derivative products are expensed as incurred. When an insured issue is retired early, as discussed in the Premium Revenue Recognition section of these Critical Accounting Estimates, the remaining related deferred acquisition cost is expensed at that time.

Deferred Income Taxes

As of December 31, 2006 and 2005, we had a net deferred income tax liability of $39.9 million and $26.6 million, respectively. Certain of our subsidiaries are subject to U.S. income tax. Deferred income tax assets and liabilities are established for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted rates in effect for the year in which the differences are expected to reverse. Such temporary differences relate principally to deferred acquisition costs, reserves for losses and LAE, unearned premium reserves, net operating loss carryforwards (NOLs), unrealized gains and losses on investments and derivative financial instruments and statutory contingency reserves. A valuation allowance is recorded to reduce a deferred tax asset to the amount that in management s opinion is more likely than not to be realized.

As of December 31, 2006, Assured Guaranty Re Overseas Ltd. (AGRO) had a stand alone NOL of $50.0 million, compared with $59.2 million as of December, 31, 2005, which is available to offset its future U.S. taxable income. The Company has $29.3 million of this NOL available through 2017 and $20.7 million available through 2023. AGRO s stand alone NOL is not permitted to offset the income of any other members of AGRO s consolidated group due to certain tax regulations. Under applicable accounting rules, we are required to establish a valuation allowance for NOLs that we believe are more likely than not to expire before utilized. Management believes it is more likely than not that $20.0 million of AGRO s $50.0 million NOL will not be utilized before it expires and has established a $7.0 million valuation allowance related to the NOL deferred tax asset. The valuation allowance is subject to considerable judgment, is reviewed quarterly and will be adjusted to the extent actual taxable income differs from estimates of future taxable income that may be used to realize NOLs or capital losses.

Accounting for Share-Based Compensation

Prior to January 1, 2006, we accounted for our share-based employee compensation plans under the measurement and recognition provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations, as permitted by FAS No. 123, Accounting for Stock-Based Compensation (FAS 123). During the years ended December 31, 2005 and 2004, we recorded no share-based employee compensation expense for options granted under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (the Incentive Plan) as all options granted under that plan had exercise prices equal to the fair market value of our common stock on the date of grant. Also, during the year ended December 31, 2005, we recorded no compensation expense in connection with the Assured Guaranty Ltd. Employee Stock Purchase Plan (the Stock Purchase Plan) as the purchase price of the stock was not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each purchase period. In accordance with FAS 123 and FAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS 148) we disclosed our net income and earnings per share as if we had applied the fair value-based method in measuring compensation expense for our share-based incentive programs.

Effective January 1, 2006, we adopted the fair value recognition provisions of FAS No. 123 (revised), Share-Based Payment (FAS 123R) using the modified prospective transition method. Under that transition method, compensation expense includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R.

As a result of adopting FAS 123R on January 1, 2006, the Company s 2006 income before income taxes and net income are $4.9 million and $4.0 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for 2006 were both $0.05 lower, respectively, than if the Company had continued to account for share-based compensation under APB 25. In addition, the Company capitalized $2.6 million, $1.1 million and 0.8 million in 2006, 2005 and 2004, respectively, of share-based compensation as DAC. Because we elected to use the modified prospective transition method, results for prior periods have not been restated.

The following table presents pre-DAC and pre-tax, share-based compensation cost by share-based expense type:

	Year Ended December 31,		
	2006	2005	2004(1)
	(in thousands of U.S. dollars)		
Share-Based Employee Compensation Cost			
Restricted Stock			
Recurring amortization	$ 7,676	$ 5,481	$ 2,674
Accelerated amortization for retirement eligible employees	1,534		
Subtotal	9,210	5,481	2,674
Stock Options			
Recurring amortization	3,581		
Accelerated amortization for retirement eligible employees	655		
Subtotal	4,236		
ESPP	125		
Total Share-Based Employee Compensation Cost	**13,571**	**5,481**	**2,674**
Share-Based Directors Compensation Cost			
Restricted Stock	289	275	184
Restricted Stock Units	843	663	420
Total Share-Based Directors Compensation Cost	**1,132**	**938**	**604**
Total Share-Based Compensation Cost	**$ 14,703**	**$ 6,419**	**$ 3,278**

(1) 2004 excludes $0.6 million of share-based cost recognized for ACE restricted stock.

At December 31, 2006, there was $19.2 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average period of 1.4 years. As a result of the adoption of FAS 123R, the income tax effects of compensatory stock options are included in the computation of the income tax expense (benefit), and deferred tax assets and liabilities, subject to certain prospective adjustments to shareholders equity for the differences between the income tax effects of expenses recognized in the results of operations and the related amounts deducted for income tax purposes. Prior to the adoption of FAS 123R, the tax benefits relating to the income tax deductions for compensatory stock options were recorded directly to shareholders equity.

The weighted-average grant-date fair value of options granted were $6.71, $4.63 and $4.00 for the years ended December 31, 2006, 2005 and 2004, respectively. The fair value of options issued is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2006, 2005 and 2004:

	2006		2005		2004	
Dividend yield	0.5	%	0.7	%	0.7	%
Expected volatility	20.43	%	20.80	%	17.03	%
Risk free interest rate	4.6	%	4.1	%	4.4	%
Expected life	5 years		5 years		5 years	
Forfeiture rate	6.0	%	6.0	%	6.0	%

These assumptions were based on the following:

- The expected dividend yield is based on the current expected annual dividend and share price on the grant date,
- Expected volatility is estimated at the date of grant based on the historical share price volatility, calculated on a daily basis,

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- The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term to the granted stock options,

- The expected life is based on the average expected term of our guideline companies, which are defined as similar or peer entities, since the Company has insufficient expected life data,

- The forfeiture rate is based on the rate used by our guideline companies, since the Company has insufficient forfeiture data. Estimated forfeitures will be reassessed at each balance sheet date and may change based on new facts and circumstances.

For options granted before January 1, 2006, the Company amortizes the fair value on an accelerated basis. For options granted on or after January 1, 2006, the Company amortizes the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods, with the exception of retirement-eligible employees. Stock options are generally granted once a year with exercise prices equal to the closing price on the date of grant. The Company may elect to use different assumptions under the Black-Scholes option valuation model in the future, which could materially affect the Company s net income or earnings per share.

Consolidated Results of Operations

The following table presents summary consolidated results of operations data for the years ended December 31, 2006, 2005 and 2004.

	Year Ended December 31,(1)		
	2006	2005	2004
	($ in millions)		
Revenues:			
Gross written premiums	$ 325.7	$ 252.1	$ 190.9
Net written premiums	318.7	217.3	79.6
Net earned premiums	206.7	198.7	187.9
Net investment income	111.5	96.8	94.8
Net realized investment (losses) gains	(2.0)	2.2	12.0
Unrealized gains (losses) on derivative financial instruments	5.5	(3.5)	52.5
Other income	0.4	0.2	0.8
Total revenues	322.1	294.5	347.9
Expenses:			
Loss and loss adjustment expenses	(6.6)	(69.6)	(32.0)
Profit commission expense	9.5	12.9	15.5
Acquisition costs	45.0	45.3	50.9
Operating expenses	68.0	59.0	67.8
Other expenses	16.3	17.3	12.3
Total expenses	132.1	64.9	114.6
Income before provision for income taxes	190.0	229.6	233.3
Provision for income taxes	30.2	41.2	50.5
Net income	$ 159.7	$ 188.4	$ 182.8
Underwriting gain (loss) by segment(2):			
Financial guaranty direct	$ 30.8	$ 26.1	$ 27.6
Financial guaranty reinsurance	30.0	111.4	49.0
Mortgage guaranty	16.7	11.1	26.7
Other	13.5	2.4	(6.7)
Total	$ 91.0	$ 151.1	$ 97.0

(1) Some amounts may not add due to rounding.

(2) Prior year segment amounts have been adjusted to reflect current year operating expense allocations for comparability purposes.

We organize our business around four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. There are a number of lines of business that we have exited as part of our April 2004 IPO, which are included in the other segment. However, the results of these businesses are reflected in the above numbers. These businesses include equity layer credit protection, trade credit reinsurance, title reinsurance and auto residual value reinsurance.

Net Income

Net income was $159.7 million, $188.4 million and $182.8 million for the years ended December 31, 2006, 2005 and 2004, respectively. Included in 2006 net income are increased underwriting gains of $4.7 million, $5.6 million and $11.1 million from our financial guaranty direct, mortgage guaranty and other segments, respectively, compared with 2005. The $4.7 million increase in our financial guaranty direct segment is attributable to greater market penetration as we continue to implement our direct business strategy. The mortgage guaranty segment increase is primarily due to $4.7 million of net earned premiums recognized upon the termination of certain mortgage guaranty transactions during 2006. The increase of $11.1 million in our other segment is due to a greater amount of loss recoveries received in 2006 compared with 2005. Our financial guaranty reinsurance segment decreased $81.4 million in 2006 compared with 2005 primarily due to $71.0 million of loss recoveries in 2005. These loss recoveries resulted from reinsurance of financial guaranty policies that insured certain investments in securities issued by entities related to Commercial Financial Services, Inc. (CFS). In addition to our business segment activity, 2006 net investment income increased $14.7 million compared with 2005, due to increasing investment yields during the year, combined with an increase in invested assets due to positive operating cash flows. Also, 2006 income tax expense decreased to $30.2 million compared with $41.2 million in 2005, as 2005 included $24.9 million of income tax expense related to the $71.0 million loss recoveries in 2005.

The increase of $5.6 million in 2005 compared with 2004 is primarily due to an underwriting gain of $151.1 million in 2005, representing a $54.1 million increase compared with the $97.0 million underwriting gain in 2004 attributable to the $71.0 million of loss recoveries discussed above. This underwriting gain was offset by a $56.0 million decline in unrealized (losses) gains on derivative financial instruments which were $(3.5) million in 2005, compared with $52.5 million in 2004. Also contributing to the increase was a $9.3 million reduction in our income tax provision which was $41.2 million in 2005, compared with $50.5 million in 2004, primarily attributable to the relative distribution of taxable income across our taxable and non-taxable jurisdictions.

Gross Written Premiums

	Year Ended December 31,		
Gross Written Premiums	**2006**	**2005**	**2004**
	($ in millions)		
Financial guaranty direct	$ 189.2	$ 96.2	$ 80.8
Financial guaranty reinsurance	123.9	98.0	160.3
Mortgage guaranty	8.4	25.7	24.4
Total financial guaranty gross written premiums	321.6	219.9	265.5
Other	4.1	32.2	(74.6)
Total gross written premiums	$ 325.7	$ 252.1	$ 190.9

Gross written premiums for the year ended December 31, 2006 were $325.7 million compared with $252.1 million for the year ended December 31, 2005, an increase of $73.6 million, or 29%. Our 2006 financial guaranty direct results include upfront gross written premiums of $63.0 million from our international business. 2005 did not include any such premiums. Our U.S. public finance business contributed $35.6 million in upfront gross written premiums for 2006 compared with $20.0 million for the same period last year. Our financial guaranty reinsurance segment increased $25.9 million in 2006 compared with 2005 due to increased upfront treaty and facultative assumed premiums in 2006, whereas 2005 had more installment treaty premiums. In addition, in 2005, Financial Security Assurance Inc. (FSA) reassumed from Assured Guaranty Re Ltd. (AG Re) $18.4 million of healthcare related business (FSA transaction). Gross written premiums for 2006 in our mortgage guaranty segment decreased $17.3 million compared with 2005, primarily attributable to a single transaction executed in 2005 which contributed $16.3 million to gross written premiums.

Gross written premiums for the year ended December 31, 2005 were $252.1 million compared with $190.9 million for the year ended December 31, 2004, an increase of $61.2 million, or 32%. Gross written premiums from our financial guaranty operations decreased $45.6 million in 2005 compared with 2004. The financial guaranty direct segment increased $15.4 million in 2005 compared with 2004 primarily due to a $16.1 million increase in public finance transactions which are generally received upfront. This increase was offset by decreased business in our financial guaranty reinsurance segment attributable to one cedant relationship that was terminated and business from a second cedant that was decreased, effective July 1, 2004 and to FSA reassuming from AG Re $18.4 million of healthcare related business during 2005. Offsetting the decreased gross written premium from our financial guaranty operations was an increase of $106.8 million in 2005 compared with 2004 in our other segment. The increase was due to $25.8 million in gross written premium in 2005, which was immediately retroceded to a subsidiary of ACE Limited (ACE), our former parent, as part of a pre-IPO reinsurance agreement under which we provided reinsurance to CGA Group Ltd. (CGA) and retroceded 100% of this exposure to that ACE subsidiary. In addition, 2004 gross premiums written were reduced $97.8 million, as part of the IPO due to the unwinding of equity layer credit protection products.

Net Earned Premiums

	Year Ended December 31,		
Net Earned Premiums	**2006**	**2005**	**2004**
	($ in millions)		
Financial guaranty direct	$ 89.7	$ 74.5	$ 88.8
Financial guaranty reinsurance	94.4	105.6	114.4
Mortgage guaranty	22.7	18.6	33.7
Total financial guaranty net earned premiums	206.7	198.7	236.8
Other			(48.9)
Total net earned premiums	$ 206.7	$ 198.7	$ 187.9

Net earned premiums for the year ended December 31, 2006 increased $8.0 million, or 4%, compared with the year ended December 31, 2005. Net earned premiums from our financial guaranty direct operations increased to $89.7 million in 2006 compared with $74.5 million in 2005, as our direct written premiums have increased as a result of greater market penetration, resulting in increased net earned premiums. Our financial guaranty reinsurance segment decreased $11.2 million in 2006 compared with 2005 due to the non-renewal of certain treaties.

Net earned premiums for the year ended December 31, 2005 increased by $10.8 million, or 6%, compared with the year ended December 31, 2004. Financial guaranty net earned premiums decreased $38.1 million in 2005 compared with 2004, due to a $14.3 million decline in the financial guaranty direct segment, which included $24.2 million of net earned premium related to the unwinding of a transaction in 2004 and a $15.1 million decrease in our mortgage guaranty segment, reflecting the run-off of our quota share treaty business. This decrease was offset by an increase of $48.9 million in our other segment in 2004, attributable to the retrocession in 2004 of lines of business that we no longer underwrite.

Net Investment Income

Net investment income was $111.5 million, $96.8 million and $94.8 million and had pre-tax yields to maturity of 5.1%, 4.9% and 4.8% for the years ended December 31, 2006, 2005 and 2004, respectively. The increase in net investment income in 2006 compared with 2005 was due to increasing investment yields during the year, combined with increased invested assets due to positive operating cash flows. The increase in net investment income in 2005 compared with 2004 was due to the increase in investment yields as well as an increase in our invested assets during the year.

Net Realized Investment (Losses) Gains

Realized gains and losses are determined using the specific identification method and are credited or charged to income. Net realized investment (losses) gains, principally from the sale of fixed maturity securities, were $(2.0) million, $2.2 million and $12.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. In addition to (losses) gains from the sale of fixed maturity securities, 2004 included realized gains of $6.0 million as a result of investments sold in connection with a commutation settlement of a residual value transaction. Also included in net realized investment gains for 2004 was a write down of $1.3 million related to the Company s exited title reinsurance business. The Company had no write downs of investments for other than temporary impairment losses in 2006, 2005 or 2004. Net realized investment (losses) gains, net of related income taxes, were $(1.5) million, $1.8 million and $7.7 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Unrealized Gains (Losses) on Derivative Financial Instruments

Derivative financial instruments are recorded at fair value as required by FAS 133 and FAS 149. However, as explained under Critical Accounting Estimates, we record part of the change in fair value in the loss and LAE reserves as well as in unearned premium reserves. The fair value adjustment for the year ended December 31, 2006 was a $5.5 million gain compared with a $3.5 million loss for the year ended December 31, 2005 and a $52.5 million gain for the same period in 2004. The fair value change of $5.5 million for 2006 is related to many factors but primarily due to run-off of transactions and tightening in credit spreads. The 2005 loss of $3.5 million primarily relates to the run-off of transactions and a slight widening in investment grade corporate spreads. The 2004 gain of $52.5 million primarily relates to an approximate 15-20% tightening in credit spreads.

The gain or loss created by the estimated fair value adjustment will rise or fall based on estimated market pricing and may not be an indication of ultimate claims. Fair value is defined as the amount at which an asset or liability could be bought or sold in a current transaction between willing parties. We generally plan to hold derivative financial instruments to maturity. Where we hold derivative financial instruments to maturity, these fair value adjustments would generally be expected to reverse resulting in no gain or loss over the entire term of the contract.

Loss and Loss Adjustment Expenses

	Year Ended December 31,		
Loss and Loss Adjustment Expenses	**2006**	**2005**	**2004**
	($ in millions)		
Financial guaranty direct	$ (2.0)	$ (2.2)	$ 14.8
Financial guaranty reinsurance	13.1	(61.3)	15.4
Mortgage guaranty	(4.4)	(3.7)	(11.9)
Total financial guaranty loss and loss adjustment expenses	6.7	(67.2)	18.3
Other	(13.5)	(2.4)	(50.3)
Total loss and loss adjustment expenses	$ (6.8)	$ (69.6)	$ (32.0)

Loss and LAE for the years ended December 31, 2006, 2005 and 2004 were $(6.8) million, $(69.6) million and $(32.0) million, respectively. In 2006, the financial guaranty direct segment had loss and loss adjustment expenses of $(2.0) million mainly due to a $4.8 million release of portfolio reserves primarily as a result of the early termination of 20 swap transactions based on the counterparties right to terminate and transaction run-off offset by an increase of $4.5 million associated with the increase in net earned premiums and downgrades of a sub-prime mortgage transaction. 2006 case loss reserves include a net recovery of $1.6 million relating to the settlement of a sub-prime mortgage transaction. The financial guaranty reinsurance segment had loss and loss adjustment expenses of $13.1 million due to $6.8 million of net case loss and LAE reserve additions, primarily related to the ratings downgrade of a U.S. public infrastructure transaction as well as other asset backed securities and a $1.6 million write-down of expected litigation recoveries, reported from a cedant. These recoveries were established in 1998 from a bankruptcy estate. In addition, the Company increased portfolio reserves $6.2 million primarily due to the ratings downgrade of a European infrastructure transaction and management updating its rating agency default statistics, as part of our normal portfolio reserve process and due to the rating downgrade of various credits. The other segment includes $(13.5) million of loss recoveries from third party litigation settlements.

Included in 2005 financial guaranty direct results, is a reduction of $7.0 million in portfolio reserves attributable to changes in credit quality and from continued runoff from maturing CDO exposures, as well as management updating its loss reserving data, as part of our normal portfolio reserve process, to include the most current rating agency default studies, primarily offset by $4.5 million of incurred case reserve activity. The financial guaranty reinsurance segment included $71.0 million in loss recoveries from a third party litigation settlement agreement, with two parties, relating to a reinsurance claim incurred in 1998 and 1999. This recovery was offset by an addition to loss reserves of $6.0 million, consisting of a $10.4 million addition to case reserves and a reduction of $4.4 million to portfolio reserves due to a reinsurance client ceding losses on two Northwest Airlines Enhanced Equipment Trust Certificate (EETC) credits with net par outstanding of $66.1 million. Our other segment in 2005 was impacted by the commutation and retrocession of certain lines of business that we no longer underwrite as well as a $2.4 million recovery related to the equity layer credit protection business.

Included in 2004 financial guaranty direct results is $12.3 million related to the closing out of transaction types that we no longer underwrite. The 2004 financial guaranty reinsurance segment included a $3.7 million addition in portfolio reserves as a result of credit downgrades. In addition, during 2004 management updated its loss estimates for the mortgage guaranty segment resulting in a release of reserves, as a result of changes in our statistical assumptions driven by the completion of a rating agency review of our book of business during the year coupled with favorable loss development related to older experience rated quota share contracts, which were running off. Our other segment included $(50.3) million in 2004, as a result of exiting those lines of business we no longer underwrite.

Profit Commission Expense

Profit commissions, which are primarily related to our mortgage guaranty segment, allow the ceding company to share favorable experience on a reinsurance contract due to lower than expected losses. Expected or favorable loss development generates profit commission expense, while the inverse occurs on unfavorable loss development. Portfolio reserves are not a component of these profit commission calculations. In future years the primary component of profit commissions will be from the FSA transaction, discussed earlier. For the years ended December 31, 2006, 2005 and 2004 profit commissions were $9.5 million, $12.9 million and $15.5 million, respectively. The decrease in profit commission expense for 2006 compared with 2005 is due to the run-off of mortgage guaranty experience rated quota share treaties, which have a large profit commission component. Also adding to the decrease is a particular financial guaranty reinsurance treaty, that contains a profit commission component, that had reduced net earned premiums associated with it in 2006. Not all treaties in our financial guaranty reinsurance segment have a profit commission component. The decrease in profit commission expense for 2005 compared with 2004 is also primarily due to the run-off of mortgage guaranty experience rated quota share treaties, which have a large profit commission component.

Acquisition Costs

Acquisition costs primarily consist of ceding commissions, brokerage fees and operating expenses that are related to the acquisition of new business. Acquisition costs that vary with and are directly related to the acquisition of new business are deferred and amortized in relation to earned premium. For the years ended December 31, 2006, 2005 and 2004, acquisition costs incurred were $45.0 million, $45.3 million and $50.9 million, respectively. The decrease of $0.3 million in 2006 compared with 2005 is primarily related to a greater portion of 2006 earned premium, compared with 2005, coming from our financial guaranty direct business, which has no ceding commission. The decrease of $5.6 million in 2005 compared with 2004 is primarily related to $3.9 million of acquisition costs incurred in our other segment in 2004. There were no acquisition costs incurred in our other segment during 2005.

Operating Expenses

For the years ended December 31, 2006, 2005 and 2004, operating expenses were $68.0 million, $59.0 million and $67.8 million, respectively. The increase for 2006 compared with 2005 was primarily due to staff additions and merit increases as well as the recognition of stock option expense and the accelerated vesting of restricted stock grants for retirement eligible employees as required by FAS 123R, which the Company adopted on January 1, 2006. The decrease for 2005 compared with 2004 was primarily due to the accelerated vesting of $11.3 million of employee stock awards which occurred as part of the IPO, offset by expenses associated with maintaining a holding company platform during all of 2005. The holding company was not activated until April 28, 2004, the date of the IPO.

Other Expenses

For the years ended December 31, 2006, 2005 and 2004, other expenses were $16.3 million, $17.3 million and $12.3 million, respectively. 2006 includes $2.5 million of put option premiums associated with Assured Guaranty Corp. s (AGC) $200.0 million committed capital securities and $13.4 million of interest expense, net of amortization of our cash flow hedge, related to the issuance of our 7% Senior Notes in May 2004. The coupon on the Senior Notes is 7.0%, however, the effective rate is approximately 6.4%, taking into account the effect of a cash flow hedge executed by the Company in March 2004. In addition, 2006 includes $0.3 million of interest expense related to the issuance of our 6.40% Series A Enhanced Junior Subordinated Debentures in December 2006. 2005 is comprised of $2.0 million of investment banking fees and $1.7 million of put option premiums associated with the committed capital securities. Other expenses for 2005 also included $13.4 million of interest expense, net of amortization of our cash flow hedge, associated with our Senior Notes. The 2004 expense is related to the issuance of our 7% Senior Notes in May 2004 and the $1.6 million write off of goodwill in our other segment. This amount is related to the trade credit business which we exited as part of the IPO.

Income Tax

For the years ended December 31, 2006, 2005 and 2004, income tax expense was $30.2 million, $41.2 million and $50.5 million and our effective tax rate was 15.9%, 17.9% and 21.7% for the years ended December 31, 2006, 2005 and 2004, respectively. Our effective tax rates reflect the proportion of income recognized by each of our operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, UK subsidiaries taxed at the UK marginal corporate tax rate of 30%, and no taxes for our Bermuda holding company and subsidiaries. Accordingly, our overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions. 2006 includes $4.7 million of income tax expense related to the $13.5 million of loss recoveries from third party litigation settlements related to the equity layer credit protection business. 2005 included $24.9 million of income tax expense related to the $71.0 million loss recoveries mentioned above, partially offset by a $7.8 million tax benefit from a transaction in which AGC and AG Re entered into a reinsurance agreement with FSA pursuant to which substantially all of FSA s financial guaranty risks previously ceded to AGC (the Ceded Business) was assumed by AG Re. This agreement was effective as of January 1, 2005 and is consistent with the Company s IPO strategy of AGC ceasing to write new reinsurance business and transferring its existing reinsurance business to AG Re to optimize capital utilization. In connection with the transaction, AGC transferred liabilities of $169.0 million, consisting primarily of unearned premium reserves. Since this transaction transferred unearned premium reserve from AGC, a U.S. tax paying entity, to AG Re, a non-U.S. tax paying entity, the Company released a deferred tax liability related to differences between the book and tax carrying amounts of unearned premium reserves which resulted in a $7.8 million tax benefit.

Segment Results of Operations

Our financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. Management uses underwriting gains and losses as the primary measure of each segment s financial performance. Underwriting gain or loss includes net earned premiums, loss and loss adjustment expenses, profit commission expense, acquisition costs and operating expenses that are directly related to the operations of our insurance businesses. This measure excludes certain revenue and expense items, such as net investment income, realized investment gains and losses, unrealized gains and losses on derivative financial instruments, and interest expense, that are not directly related to the underwriting performance of our insurance operations, but are included in net income. For the year ended December 31, 2004 our segment results exclude $11.3 million of operating expenses related to the accelerated vesting of stock awards at the IPO date.

Financial Guaranty Direct Segment

The financial guaranty direct segment consists of our primary financial guaranty insurance business and our credit derivative business. Financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Financial guaranty insurance may be issued to the holders of the insured obligations at the time of issuance of those obligations, or may be issued in the secondary market to holders of public bonds and structured securities. As an alternative to traditional financial guaranty insurance, credit protection on a particular security or issuer can also be provided through a credit derivative, such as a credit default swap. Under a credit default swap, the seller of protection makes a specified payment to the buyer of protection upon the occurrence of one or more specified credit events with respect to a reference obligation or a particular reference entity. Credit derivatives typically provide protection to a buyer rather than credit enhancement of an issue as in traditional financial guaranty insurance.

The table below summarizes the financial results of our financial guaranty direct segment for the periods presented:

	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Gross written premiums	$ 189.2	$ 96.2	$ 80.8
Net written premiums	187.0	93.9	77.7
Net earned premiums	89.7	74.5	88.8
Loss and loss adjustment expenses	(2.0)	(2.2)	14.8
Profit commission expense			
Acquisition costs	8.5	6.3	4.5
Operating expenses	52.3	44.3	41.8
Underwriting gain	$ 30.8	$ 26.1	$ 27.6
Loss and loss adjustment expense ratio	(2.2)%	(2.9)%	16.7%
Expense ratio	67.8%	67.8%	52.2%
Combined ratio	65.6%	64.9%	68.9%

Gross Written Premiums	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Public finance	$ 100.4	$ 21.1	$ 5.9
Structured finance	88.8	75.1	74.9
Total	$ 189.2	$ 96.2	$ 80.8

The financial guaranty direct segment contributed $189.2 million, $96.2 million and $80.8 million to overall gross written premiums, for the years ended December 31, 2006, 2005 and 2004, respectively. The 2006 financial guaranty direct segment includes upfront gross written premiums of $63.0 million from our international business. 2005 did not include any upfront gross written premium from our international business. Our U.S. public finance business contributed $35.6 million in upfront gross written premiums for 2006 compared with $20.0 million for the same period last year. The $15.4 million increase in 2005 compared with 2004 is primarily due to a $16.1 million increase in public finance transactions, reflecting the execution of our direct business plan.

Generally, gross and net written premiums from the structured finance and credit derivative markets have been received on an installment basis, while the public finance market premium is generally received upfront. In 2006, 2005 and 2004, installment premiums represented 48%, 79% and 93% of gross written premiums in this segment, or $90.1 million, $75.9 million and $75.1 million, respectively. The contribution of upfront premiums to gross written premiums were 52%, 21% and 7% of gross written premiums, or $99.1 million, $20.3 million and $5.7 million in 2006, 2005 and 2004, respectively.

Net Written Premiums	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Public finance	$ 100.4	$ 21.1	$ 5.9
Structured finance	86.6	72.8	71.8
Total	$ 187.0	$ 93.9	$ 77.7

For the years ended December 31, 2006, 2005 and 2004, net written premiums were $187.0 million, $93.9 million and $77.7 million, respectively. The variances in net written premiums are consistent with the variances in gross written premiums as we typically retain a substantial portion of this business.

Net Earned Premiums	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Public finance	$ 6.7	$ 2.2	$ 0.5
Structured finance	83.0	72.3	88.3
Total	$ 89.7	$ 74.5	$ 88.8

Net earned premiums for the years ended December 31, 2006, 2005 and 2004, were $89.7 million, $74.5 million and $88.8 million, respectively. The increase of $15.2 million in net earned premiums in 2006 compared with 2005 reflects our increased market penetration, which has generated additional net written premiums and in-force business, discussed above. These components contributed to the increased net earned premium. The decrease of $14.3 million in net earned premiums in 2005 compared with 2004 is due to $24.2 million of net earned premiums in 2004 related to the close out of a transaction in which we no longer participate, offset by new business.

Loss and loss adjustment expenses were $(2.0) million, $(2.2) million and $14.8 million for the years ended December 31, 2006, 2005 and 2004, respectively. Our loss and loss adjustment expenses are affected by changes in the mix, size and credit trends in our book of business, and by changes in our reserves for loss and loss adjustment expenses for prior periods. The loss ratios for the years ended December 31, 2006, 2005 and 2004 were (2.2)%, (2.9)% and 16.7%, respectively. 2006 includes a $4.8 million release of portfolio reserves primarily as a result of the early termination of 20 swap transactions based on the counterparties right to terminate and transaction run-off offset by an increase of $4.5 million associated with the increase in par in force and related net earned premiums and downgrades to sub-prime mortgage transactions. Case loss reserves for 2006 include a net recovery of $1.6 million relating to the settlement of a sub-prime mortgage transaction.

Portfolio reserves for 2005 were reduced $7.0 million, attributable to changes in credit quality and from continued runoff from maturing CDO exposures, as well as management updating its loss reserving data, as part of our normal portfolio reserve process, to include the most current rating agency default studies. Primarily offsetting this portfolio reserve decrease was an addition of $4.5 million in case reserves for a specific mortgage transaction executed in 2002, consisting of sub-prime mortgages originated in 2000.

For the years ended December 31, 2006, 2005 and 2004, acquisition costs incurred were $8.5 million, $6.3 million and $4.5 million, respectively. 2006 acquisition costs incurred increased $2.2 million compared with 2005 which is consistent with the increase in net earned premium. 2005 acquisition costs incurred increased $1.8 million compared with 2004. The increase in acquisition costs incurred over the period is directly related to the increase in net earned premium excluding the $24.2 million of net earned premium in 2004, due to the close out of a transaction noted earlier, which had an immaterial amount of acquisition costs associated with it.

Operating expenses for the years ended December 31, 2006, 2005 and 2004 were $52.3 million, $44.3 million and $41.8 million, respectively. During 2006, the Company implemented a new operating expense allocation methodology to more closely allocate expenses to the individual operating segments. This new methodology was based on a comprehensive study and is based on departmental time estimates and headcount. 2005 and 2004 amounts have been reclassified to show this new methodology on a comparative basis. The increase in operating expenses for 2006 compared with 2005 is attributable to increased staff additions and merit increases as well as the recognition of stock option expense and the accelerated vesting of restricted stock grants for retirement eligible employees as required by FAS 123R, which the Company adopted on January 1, 2006. The increase during 2005 compared with 2004 was primarily due to salary and related expenses as the Company increased staffing levels to meet its business needs.

Financial Guaranty Reinsurance Segment

In our financial guaranty reinsurance business, we assume all or a portion of risk undertaken by other insurance companies that provide financial guaranty protection. The financial guaranty reinsurance business consists of public finance and structured finance reinsurance lines. Premiums on public finance are typically written upfront and earned over the life of the policy, and premiums on structured finance are typically written on an installment basis and earned ratably over the installment period.

The table below summarizes the financial results of our financial guaranty reinsurance segment for the periods presented:

	Year Ended December 31,		
	2006	**2005**	**2004**
	($ in millions)		
Gross written premiums	$ 123.9	$ 98.0	$ 160.3
Net written premiums	123.2	97.8	160.1
Net earned premiums	94.4	105.6	114.4
Loss and loss adjustment expenses	13.1	(61.3)	15.4
Profit commission expense	2.7	4.8	1.1
Acquisition costs	34.1	36.9	38.8
Operating expenses	14.5	13.8	10.1
Underwriting gain	$ 30.0	$ 111.4	$ 49.0
Loss and loss adjustment expense ratio	13.9 %	(58.1)%	13.5 %
Expense ratio	54.3 %	52.5 %	43.7 %
Combined ratio	68.2 %	(5.6)%	57.2 %

Gross Written Premiums	**Year Ended December 31,**		
	2006	**2005**	**2004**
	($ in millions)		
Public finance	$ 92.2	$ 62.9	$ 118.9
Structured finance	31.7	35.1	41.4
Total	$ 123.9	$ 98.0	$ 160.3

Gross written premiums for our financial guaranty reinsurance segment include upfront premiums on transactions underwritten during the period, plus installment premiums on business primarily underwritten in prior periods. Consequently, this amount is affected by changes in the business mix between public finance and structured finance. For the years ended December 31, 2006, 2005 and 2004, 68%, 52% and 68%, respectively, of gross written premiums in this segment were upfront premiums and 32%, 48% and 32%, respectively, were installment premiums.

Gross written premiums for the years ended December 31, 2006, 2005 and 2004 were $123.9 million, $98.0 million and $160.3 million, respectively. The 2006 increase of $25.9 million, or 26%, compared with 2005 is attributable to FSA reassuming $18.4 million of healthcare related reinsurance business from AG Re in 2005 and to greater facultative business. 2005 gross written premiums decreased $62.3 million, or 39%, compared with 2004 primarily due to one cedant relationship that was terminated and business from a second cedant that was decreased, effective July 1, 2004. Further reducing 2005 gross written premium is the FSA transaction of $18.4 million discussed earlier.

The following table summarizes the Company s reinsurance gross written premiums by significant client:

Gross Written Premiums by Client	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Financial Security Assurance Inc.(1)	$ 57.5	$ 45.3	$ 79.8
Ambac Assurance Corporation(2)	23.6	32.8	37.4
Financial Guaranty Insurance Company	21.1	10.5	0.9
MBIA Insurance Corporation	10.5	15.5	28.3

(1) 2005 does not include $18.4 million of reassumed premiums related to the Company s healthcare business.

(2) On April 20, 2005, Ambac Assurance Corporation provided notice of a non-renewal of the quota share treaty on a run-off basis, effective July 1, 2006.

The following table summarizes the Company s gross written premiums by type of contract:

Gross Written Premiums	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Treaty	$ 82.4	$72.3	$ 135.8
Facultative	41.5	25.7	24.5
Total	$ 123.9	$ 98.0	$ 160.3

Net Written Premiums	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Public finance	$ 91.5	$ 62.7	$ 118.7
Structured finance	31.7	35.1	41.4
Total	$ 123.2	$ 97.8	$ 160.1

For the years ended December 31, 2006, 2005 and 2004, net written premiums were $123.2 million, $97.8 million and $160.1 million, respectively. These differences are consistent with the changes in gross written premiums described above.

Net Earned Premiums	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Public finance	$ 61.2	$ 57.0	$ 57.7
Structured finance	33.2	48.6	56.7
Total	$ 94.4	$ 105.6	$ 114.4
Included in public finance net earned premiums are refundings of:	$ 11.2	$ 12.1	$ 17.4

For the years ended December 31, 2006, 2005 and 2004, net earned premiums were $94.4 million, $105.6 million and $114.4 million, respectively. Net earned premiums decreased $11.2 million, or 11%, in 2006 compared with 2005, due to the non-renewal of certain treaties and change in mix of business. Public finance net earned premiums include refunding premiums, which reflect the unscheduled pre-payment or refundings of underlying municipal bonds due to lower interest rates. These unscheduled refunding premiums, which were $11.2 million for 2006, compared with $12.1 million for the same period last year, are sensitive to market interest rates. We evaluate our net earned premiums both including and excluding these premiums. The $8.8 million decrease in 2005 net earned premiums compared with 2004 was primarily caused by $5.3 million of reduced refundings in our public finance business. In addition, the FSA transaction reduced net earned premiums by $3.0 million, while the termination of one cedant relationship and decreased business from a second cedant, effective July 1, 2004, also contributed to the decline.

Loss and LAE were $13.1 million, $(61.3) million and $15.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. Our loss and LAE ratios for the years ended December 31, 2006, 2005 and 2004 were 13.9%, (58.1)% and 13.5%, respectively. The 2006 loss and loss adjustment expenses include $6.8 million of net case loss and LAE reserve additions, primarily related to the rating downgrades of a U.S. public infrastructure transaction as well as other asset backed securities and a $1.6 million write-down of expected litigation recoveries, reported from a cedant. These recoveries were established in 1998 from a bankruptcy estate. In addition, the Company increased portfolio reserves $6.2 million primarily due to the ratings downgrade of a European infrastructure transaction and management updating its rating agency default statistics, as part of our normal portfolio reserve process and due to the rating downgrade of various credits. 2005 includes $71.0 million in loss recoveries from a third party litigation settlement agreement, with two parties, relating to a reinsurance claim incurred in 1998 and 1999. This recovery was offset by an addition to loss reserves of $6.0 million, consisting of a $10.4 million addition to case reserves and a reduction of $4.4 million to portfolio reserves due to a reinsurance client ceding losses on two Northwest Airlines Enhanced Equipment Trust Certificate (EETC) credits with net par outstanding of $66.1 million. In addition, portfolio reserves were increased $2.8 million, due to credit downgrades causing movements in our closely monitored credit list and increased exposure to Hurricane Katrina.

Profit commission expense was $2.7 million, $4.8 million and $1.1 million for the years ended December 31, 2006, 2005 and 2004, respectively. Not all of our treaties have a profit commission component, however the changes in profit commission expense correspond with decreased net earned premium from a treaty which has a profit commission component.

For the years ended December 31, 2006, 2005 and 2004, acquisition costs incurred were $34.1 million, $36.9 million and $38.8 million, respectively. The decreases in acquisition costs incurred over the periods are directly related to the decreases in net earned premium.

Operating expenses for the years ended December 31, 2006, 2005 and 2004, were $14.5 million, $13.8 million and $10.1 million, respectively. During 2006, the Company implemented a new operating expense allocation methodology to more closely allocate expenses to the individual operating segments. This new methodology was based on a comprehensive study and is based on departmental time estimates and headcount. 2005 and 2004 amounts have been reclassified to show this new methodology on a comparative basis. The increase in operating expenses for 2006 compared with 2005 is attributable to increased staff additions and merit increases as well as the recognition of stock option expense and the accelerated vesting of restricted stock grants for retirement eligible employees as required by FAS 123R, which the Company adopted on January 1, 2006. The increase during 2005 compared with 2004 was primarily due to salary and related expenses as the Company increased staffing levels to meet its business needs.

Mortgage Guaranty Segment

Mortgage guaranty insurance provides protection to mortgage lending institutions against the default of borrowers on mortgage loans that, at the time of the advance, had a loan-to-value ratio in excess of a specified ratio. We primarily function as a reinsurer in this industry and assume all or a portion of the risks undertaken by primary mortgage insurers.

The table below summarizes the financial results of our mortgage guaranty segment for the periods presented:

	Year Ended December 31, 2006	2005	2004
	($ in millions)		
Gross written premiums	$ 8.4	$ 25.7	$ 24.4
Net written premiums	8.4	25.7	24.4
Net earned premiums	22.7	18.6	33.7
Loss and loss adjustment expenses	(4.4)	(3.7)	(11.9)
Profit commission expense	6.8	8.0	14.1
Acquisition costs	2.3	2.0	3.7
Operating expenses	1.3	1.2	1.1
Underwriting gain	$ 16.7	$ 11.1	$ 26.7
Loss and loss adjustment expense ratio	(19.4)%	(19.9)%	(35.2)%
Expense ratio	45.7%	60.3%	56.0%
Combined ratio	26.3%	40.4%	20.8%

Gross written premiums for the years ended December 31, 2006, 2005 and 2004 were $8.4 million, $25.7 million and $24.4 million, respectively. The decrease in gross written premiums for 2006 compared with 2005 is primarily related to a single transaction executed in 2005 which contributed $16.3 million to gross written premiums. Excluding this item, gross written premiums decreased $1.0 million due to the run-off of our quota share treaty business. The increase of $1.3 million in 2005 from 2004 is primarily related to the $16.3 million of gross written premiums from the single transaction mentioned above. Likewise, the year 2004 included a single transaction which contributed $9.5 million to gross written premiums.

Net written premiums for the years ended December 31, 2006, 2005 and 2004 were $8.4 million, $25.7 million and $24.4 million, respectively. This is consistent with gross written premiums, as we do not cede a significant amount of our mortgage guaranty business.

For the years ended December 31, 2006, 2005 and 2004, net earned premiums were $22.7 million, $18.6 million and $33.7 million, respectively. The increase of $4.1 million of net earned premiums in 2006 when compared with 2005, is due to $4.7 million of net earned premium recognized upon the terminations of mortgage guaranty transactions during 2006. The decrease in net earned premiums in 2005 compared with 2004 reflects an $8.8 million release of unearned premium reserves related to the commutation of an excess of loss reinsurance contract in 2004, coupled with the run-off of our quota share treaty business.

Loss and loss adjustment expenses were $(4.4) million, $(3.7) million and $(11.9) million for the years ended December 31, 2006, 2005 and 2004, respectively. The loss and loss adjustment expense ratios for the years ended December 31, 2006, 2005 and 2004 were (19.4)%, (19.9)% and (35.2)%, respectively. The 2006 result is primarily due to the Company releasing $4.1 million of IBNR reserves related to the settlement of the 1997 quota share treaty year. This release however, was offset by a corresponding increase in profit commission expense, discussed below. The 2005 amount is due to an IBNR release of $4.4 million, offset by an increase in portfolio reserves of $0.7 million. The IBNR reduction is offset by increased profit commission expense discussed below. The loss and loss adjustment expense for 2004 is primarily due to a decrease of $5.5 million of portfolio reserves, as a result of changes in our statistical assumptions driven by the completion of a rating agency review of our book of business during the year, coupled with $2.1 million of favorable loss development related to older experience rated quota share contracts, which are running off. This reduction in loss and loss adjustment expense was partially offset by increased profit commission expense discussed below.

Profit commission expense for the years ended December 31, 2006, 2005 and 2004 was $6.8 million, $8.0 million and $14.1 million, respectively. 2006, 2005, and 2004 include $4.1 million, $4.4 million, and $2.1 million of profit commission expense due to the settlement of the 1997, 1996, and 1995, respectively, quota share years, discussed above. The remaining decrease and the decrease in profit commission expense in 2005 compared with 2004 is due to the run-off of other mortgage guaranty quota share treaties, which also have a profit commission component. Portfolio reserves are not a component of these profit commission calculations.

Acquisition costs incurred for the years ended December 31, 2006, 2005 and 2004 were $2.3 million, $2.0 million and $3.7 million, respectively. The changes in acquisition costs incurred for 2006 compared with 2005, and 2005 compared with 2004 is directly related to the changes in net earned premiums.

Operating expenses for the years ended December 31, 2006, 2005 and 2004 were $1.3 million, $1.2 million and $1.1 million, respectively. During 2006, the Company implemented a new operating expense allocation methodology to more closely allocate expenses to the individual operating segments. This new methodology was based on a comprehensive study and is based on departmental time estimates and headcount. 2005 and 2004 amounts have been reclassified to show this new methodology on a comparative basis. The increase in operating expenses for 2006 compared with 2005 is attributable to increased salaries due to increased staff additions and merit increases as well as the recognition of stock option expense and the accelerated vesting of restricted stock grants for retirement eligible employees as required by FAS 123R, which the Company adopted on January 1, 2006. The increase during 2005 compared with 2004 was primarily due to salary and related expenses as the Company increased staffing levels to meet its business needs.

Other Segment

Our other segment consists of certain non-core businesses that we have exited in connection with the IPO, including equity layer credit protection, trade credit reinsurance, title reinsurance, and auto residual value reinsurance.

The following table provides details of net earned premiums and underwriting results by line of business:

	Year Ended December 31,		
	2006	**2005**	**2004**
	($ in millions)		
Net earned premiums:			
Equity layer credit protection	$	$	$ 5.4
Trade credit reinsurance			(25.3)
Title reinsurance			3.2
Auto residual value reinsurance			(32.2)
Total	$	$	$ (48.9)
Underwriting gain (loss):			
Equity layer credit protection	$ 13.5	$ 2.4	$ 3.1
Trade credit reinsurance			(2.9)
Title reinsurance			1.0
Auto residual value reinsurance			(7.9)
Total	$ 13.5	$ 2.4	$ (6.7)

After entering the equity layer credit protection market in 2001, we ceased writing new equity layer credit protection business during 2003. $5.4 million of net earned premiums were recognized for the year ended December 31, 2004 from the run off of this business. The underwriting gains of $13.5 million and

$2.4 million in 2006 and 2005, respectively, were attributable to salvage recoveries received during those periods. The $3.1 million underwriting gain in 2004 is from the unwinding of this business.

Trade credit reinsurance net earned premiums were $(25.3) million in 2004 due to the 100% retrocession with an affiliate of ACE, whereby we ceded 100% of the unearned premium reserves and loss and LAE reserves.

On April 15, 2004, AGRO sold 100% of the common stock of its subsidiary, ACE Capital Title Reinsurance Company, to ACE Bermuda Insurance Ltd., a subsidiary of ACE, for $39.8 million. There was no gain or loss associated with this transaction. Net earned premium of $3.2 million was recognized during the period we owned the subsidiary.

Auto residual value reinsurance net earned premiums were $(32.2) million in 2004 as we commuted our remaining auto residual value reinsurance business and transferred assets with a market value of $108.3 million to a subsidiary of ACE. This transaction caused a $6.5 million underwriting loss, offset by a $6.8 million realized gain.

Liquidity and Capital Resources

Our liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the next twelve months), is largely dependent upon: (1) the ability of our operating subsidiaries to pay dividends or make other payments to us, (2) external financings and (3) net investment income from our invested assets. Our liquidity requirements include the payment of our operating expenses, interest on our debt, and dividends on our common shares. We may also require liquidity to make periodic capital investments in our operating subsidiaries. In the ordinary course of our business, we evaluate our liquidity needs and capital resources in light of holding company expenses, debt-related expenses and our dividend policy, as well as rating agency considerations. Based on the amount of dividends we expect to receive from our subsidiaries and the income we expect to receive from our invested assets, management believes that we will have sufficient liquidity to satisfy our needs over the next twelve months, including the ability to pay dividends on our common shares. Total cash paid in 2006, 2005 and 2004 for dividends to shareholders was $10.5 million, or $0.14 per common share, $9.0 million, or $0.12 per common share, and $4.6 million, or $0.06 per common share, respectively. Beyond the next twelve months, the ability of our operating subsidiaries to declare and pay dividends may be influenced by a variety of factors including market conditions, insurance and rating agencies regulations and general economic conditions. Consequently, although management believes that we will continue to have sufficient liquidity to meet our debt service and other obligations over the long term, it remains possible that we may be required to seek external debt or equity financing in order to meet our operating expenses, debt service obligations or pay dividends on our common shares.

We anticipate that a major source of our liquidity, for the next twelve months and for the longer term, will be amounts paid by our operating subsidiaries as dividends. Certain of our operating subsidiaries are subject to restrictions on their ability to pay dividends. See Business Regulation. The amount available at AGC to pay dividends in 2007 with notice to, but without the prior approval of, the Maryland Insurance Commissioner is approximately $28.6 million. Dividends paid by a U.S. company to a Bermuda holding company presently are subject to a 30% withholding tax. The amount available at AG Re to pay dividends or make a distribution of contributed surplus in 2007 in compliance with Bermuda law is $599.6 million. However, any distribution which results in a reduction of 15% of more of AG Re s total statutory capital, as set out in its previous years financial statements, would require the prior approval of the Bermuda Monetary Authority.

Liquidity at our operating subsidiaries is used to pay operating expenses, claims, payment obligations with respect to credit derivatives, reinsurance premiums and dividends to Assured Guaranty US Holdings Inc. for debt service and dividends to us, as well as, where appropriate, to make capital investments in their own subsidiaries. In addition, certain of our operating companies may be required to post collateral in connection with credit derivatives and reinsurance transactions. Management believes that these subsidiaries operating needs generally can be met from operating cash flow, including gross written premium and investment income from their respective investment portfolios.

Net cash flows provided by (used in) operating activities were $261.6 million, $177.4 million and $(44.8) million during the years ended December 31, 2006, 2005 and 2004, respectively. 2006 operating cash flows were primarily due to upfront premium received in both our financial guaranty direct and financial guaranty reinsurance segments during 2006 and $13.5 million of loss recoveries from third party litigation settlements from business, which was exited in connection with the IPO.

Operating cash flows for 2005 were primarily provided by $203.7 million of net premiums received and loss recoveries of $71.0 million, partially offset by tax payments of $40.0 million and a $34.4 million payment of funds held.

The cash flows used in operating activities in 2004 were due to the unwinding of certain transactions related to the IPO which generated approximately $146.0 million of cash outflows. From July 1, 2004, to December 31, 2004, we generated $68.7 million of net cash flows from operating activities. These cash flows were primarily provided by premium received and investment income.

Net cash flows (used in) provided by investing activities were $(228.5) million, $(155.1) million and $22.5 million during the years ended December 31, 2006, 2005 and 2004, respectively. These investing activities were primarily net (purchases) sales of fixed maturity investment securities during 2006, 2005 and 2004. In addition, during 2004 AGRO, an indirect subsidiary of Assured Guaranty Ltd., sold 100% of the common stock of its subsidiary, ACE Capital Title Reinsurance Company, to ACE Bermuda Insurance Ltd. (ACE Bermuda), a subsidiary of ACE, for $39.8 million. There was no gain or loss associated with the sale.

Net cash flows (used in) provided by financing activities were $(35.1) million, $(31.9) million and $6.1 million during the years ended December 31, 2006, 2005 and 2004, respectively. During 2006 we paid:

- $21.1 million to repurchase 0.8 million of our common shares under the Board of Directors authorized share repurchase program for 1.0 million common shares, which was approved in May 2006,
- $10.5 million in dividends,
- $2.1 million of notes outstanding, which were issued in connection with the IPO, and related interest to subsidiaries of ACE,

In December 2006, Assured Guaranty US Holdings Inc. (AGUS), a subsidiary of the Company, issued $150.0 million Series A Enhanced Junior Subordinated Debentures (the Debentures) due in 2066. The Debentures pay a fixed 6.40% rate of interest until December 15, 2016 and pay a floating rate based on three-month LIBOR plus a margin of 2.38% with quarterly resets thereafter. Assured Guaranty US Holdings Inc. used the proceeds to repurchase 5,692,599 of the Company s common shares from ACE Bermuda.

During 2005, we paid dividends of $9.0 million, paid $3.9 million, net, under our stock award plans and paid $19.0 million to repurchase 1.0 million of our common shares under the Board of Directors authorized $25.0 million share stock repurchase program. Under the program we repurchased a total of 1.3 million common shares, over a two year period, at an average price of $18.69. During 2004, Assured Guaranty US Holdings Inc. issued $200.0 million of 7.0% Senior Notes due in 2034. The proceeds of the offering were used to repay a $200.0 million promissory note, issued as part of the IPO related formation transactions, issued to a subsidiary of ACE prior to the IPO in April 2004. The coupon on the Senior Notes is 7.0%, however, the effective rate will be approximately 6.4% due to a treasury hedge executed by the Company in March 2004. These senior notes are fully and unconditionally guaranteed by Assured Guaranty Ltd. We expect to have the capacity to repay and/or refinance the notes as they come due.

During the year ended December 31, 2004, ACE contributed capital of $78.9 million to us. This non-cash capital contribution was utilized to pay interest and principal on long-term debt (see Note 14 to the consolidated financial statements).

The following table summarizes our contractual obligations as of December 31, 2006:

	As of December 31, 2006				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	($ in millions)				
Senior Notes(1)	$ 582.3	$ 14.0	$ 28.0	$ 28.0	$ 512.3
Series A Enhanced Junior Subordinated Debentures(1)	245.7	9.6	19.2	19.2	197.7
Operating lease obligations(2)	11.2	2.8	4.7	1.2	2.5
Reserves for losses and loss adjustment expenses(3)	120.6	15.2	13.1	17.7	74.6
Total	$ 959.8	$ 41.6	$ 65.0	$ 66.1	$ 787.1

(1) Principal and interest. See also Note 17 Long-Term Debt to the consolidated financial statements in Item 8 of this 10-K.

(2) Lease payments are subject to escalations in building operating costs and real estate taxes.

(3) We have estimated the timing of these payments based on our historical experience and our expectation of future payment patterns. However, the timing of these payments may vary significantly from the amounts shown above, especially for our portfolio reserves.

Off-Balance Sheet Arrangements

As of December 31, 2006 and 2005, the Company did not have any significant off-balance-sheet arrangements that were not accounted for or disclosed in the consolidated financial statements.

Credit Facilities

2006 Credit Facility

On November 6, 2006, Assured Guaranty Ltd. 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, for which ABN AMRO Incorporated and Bank of America Securities LLC acted as lead arrangers. Under the 2006 credit facility, each of AGC, Assured Guaranty (UK) Ltd. (AG (UK)), AG Re, AGRO and Assured Guaranty Ltd. 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 Assured Guaranty Ltd., AG Re or AGRO, individually or in the aggregate, and no more than $20.0 million may be borrowed by AG (UK). 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 Ltd. 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.

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 closing of the 2006 credit facility, (i) AGC guaranteed the obligations of AG (UK) under such facility, (ii) Assured Guaranty Ltd. guaranteed the obligations of AG Re and AGRO under such 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 AG (UK) under such facility and (iii) Assured Guaranty Overseas US Holdings Inc., as a Material Non-AGC Subsidiary (as defined in the related credit agreement), guaranteed the obligations of Assured Guaranty Ltd., AG Re and AGRO under such facility.

The 2006 credit facility s financial covenants require that Assured Guaranty Ltd. (a) maintain a minimum net worth of seventy-five percent (75%) of the Consolidated Net Worth of Assured Guaranty Ltd. as of the most recent fiscal quarter of Assured Guaranty Ltd. prior to the Closing 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 prior to the closing date of the facility. Furthermore, the 2006 credit facility contains restrictions on Assured Guaranty Ltd. 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 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 December 31, 2006, Assured Guaranty was in compliance with all of those financial covenants.

As of December 31, 2006, no amounts were outstanding under this facility nor have there been any borrowings under this facility.

The 2006 credit facility replaced a $300.0 million three-year credit facility (the 2005 credit facility), discussed below. Letters of Credit for a total aggregate stated amount of approximately $19.6 million, including $19.2 million issued during the term of the 2005 credit facility, remain outstanding as of December 31, 2006.

2005 Credit Facility

On April 15, 2005, Assured Guaranty Ltd. and certain of its subsidiaries entered into a $300.0 million three-year unsecured revolving credit facility (the 2005 credit facility) with a syndicate of banks, for which ABN AMRO Incorporated and Bank of America, N.A. acted as lead arrangers and KeyBank National Association (KeyBank) acted as syndication agent. Effective November 6, 2006, the 2005 credit facility was terminated and replaced by the 2006 credit facility discussed above. Under the 2005 credit facility, each of AGC, AG (UK), a subsidiary of AGC organized under the laws of the United Kingdom, Assured Guaranty Ltd., AG Re and AGRO were 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. The 2005 credit facility replaced (1) the $250.0 million credit facility and (2) the Letter of Credit Agreement, both discussed below.

The 2005 credit facility had been available for general corporate purposes. The proceeds of the loans and letters of credit were to be used for working capital and other general corporate purposes of the borrowers and to support reinsurance transactions. Letters of Credit for a total aggregate stated amount of approximately $19.2 million issued during the term of this facility remain outstanding and are deemed issued under the 2006 credit facility.

As of December 31, 2005, no amounts were outstanding under this facility nor have there been any borrowings under this facility.

$250.0 million Credit Facility

On April 29, 2004, Assured Guaranty Ltd. and certain of its subsidiaries entered into a $250.0 million unsecured credit facility ($250.0 million credit facility), with a syndicate of banks, for which ABN AMRO Incorporated and Bank of America, N.A. acted as co-arrangers. Each of Assured Guaranty, AGC and AG (UK), was a party, as borrower. The $250.0 million credit facility was terminated and replaced by the 2005 credit facility discussed above.

The $250.0 million credit facility was a 364 day facility available for general corporate purposes. As of its termination, no amounts were outstanding under this facility nor had there been any borrowings under the life of this facility.

Letter of Credit Agreement

On November 8, 2004, Assured Guaranty Ltd., AG Re and AGRO entered into a standby letter of credit agreement (the LOC Agreement) with KeyBank. Under the LOC Agreement, KeyBank agreed to issue up to $50.0 million in letters of credit on our behalf. The obligations of the Company, AG Re and AGRO under the LOC Agreement were joint and several. The letters of credit were used to satisfy AG Re s or AGRO s obligations under certain reinsurance agreements and for general corporate purposes. Under the LOC Agreement, KeyBank issued two letters of credit, both on behalf of AGRO, with an aggregate stated amount of approximately $20.7 million. The parties to the LOC Agreement have agreed that no additional letters of credit would be issued, extended or renewed from and after the date of the closing of the 2005 credit facility and letters of credit that were outstanding on such date will, unless cancelled and surrendered by the respective beneficiaries thereof, remain outstanding until their respective stated expiration dates of December 31, 2005. The LOC Agreement contained covenants that limit debt, liens, guaranties, loans and investments, dividends, liquidations, mergers, consolidations, acquisitions, sales of assets or subsidiaries and affiliate transactions. Most of these restrictions were subject to certain minimum thresholds and exceptions. The LOC Agreement also contained financial covenants that required the Company: (i) to maintain the ratio of consolidated debt to total capitalization at not greater than 0.30 to 1.0; (ii) to maintain consolidated net worth of at least seventy-five percent (75%) of its consolidated net worth as of June 30, 2004; and (iii) to maintain the consolidated interest coverage ratio for any test period ending on the last day of a fiscal quarter at not less than 2.50 to 1.0. In addition, the LOC Agreement provided that the obligations of KeyBank to issue letters of credit may be terminated, and our obligations under the agreement may be accelerated, upon an event of default. As of December 31, 2004, no amounts were payable under any letter of credit issued under this facility. The LOC Agreement expired on April 28, 2005 and was replaced by the 2005 credit facility discussed above.

Non-Recourse Credit Facility

AGC is also party to a non-recourse credit facility with a syndicate of banks which provides up to $175.0 million specifically designed to provide rating agency qualified capital to further support AGC s claims paying resources. The facility expires in December 2010. As of December 31, 2006 and

December 31, 2005, no amounts were outstanding under this facility nor have there been any borrowings under the life of this facility.

The Company s failure to comply with certain covenants under our credit facilities could, subject to grace periods in the case of certain covenants, result in an event of default. This could require the Company to repay any outstanding borrowings in an accelerated manner.

Series A Enhanced Junior Subordinated Debentures

On December 20, 2006, AGUS issued $150.0 million of Series A Enhanced Junior Subordinated Debentures (the Debentures) due 2066 for net proceeds of $149.7 million. The Debentures are guaranteed on a junior subordinated basis by Assured Guaranty Ltd. The proceeds of the offering were used to repurchase 5,692,599 of Assured Guaranty Ltd. s common shares from ACE Bermuda Insurance Ltd., a subsidiary of ACE. The Debentures pay a fixed 6.40% rate of interest until December 15, 2016, and thereafter pay a floating rate of interest, reset quarterly, at a rate equal to 3-month LIBOR plus a margin equal to 2.38%,. AGUS may elect at one or more times to defer payment of interest for one or more consecutive periods for up to ten years. Any unpaid interest bears interest at the then applicable rate. AGUS may not defer interest past the maturity date.

On any date on which accrued interest through the most recent interest payment date has not been paid in full, whether because of an optional deferral or otherwise, AGUS and Assured Guaranty Ltd. will not, and will not permit any subsidiary to, declare or pay any dividends or any distributions on, or make any payments of interest, principal or premium, or any guarantee payments on, or redeem, repurchase, purchase, acquire or make a liquidation payment on, any of AGUS s or Assured Guaranty Ltd. s capital stock, debt securities that rank equal or junior to the Debentures or the subordinated guarantees or guarantees that rank equal or junior to the Debentures or the subordinated guarantees, other than pro rata payments on debt securities that rank equally with the Debentures and the subordinated guarantees with certain exceptions.

If AGUS has optionally deferred interest payments otherwise due on the Debentures, then following the earlier of (i) the fifth anniversary of the commencement of a deferral period or (ii) a payment, during a deferral period, of current interest on the Debentures, AGUS and Assured Guaranty Ltd. must make commercially reasonable efforts to sell qualifying warrants and non-cumulative perpetual preferred stock. If such efforts are successful, AGUS must pay optionally deferred interest out of the net proceeds from the sale of such securities. AGUS cannot pay optionally deferred interest from sources other than the net proceeds from the sale of such securities. AGUS s and Assured Guaranty Ltd. s obligation to make commercially reasonable efforts to sell qualifying warrants and non-cumulative perpetual preferred stock to satisfy AGUS s obligation to pay interest is subject to market disruption events and subject to certain caps , and does not apply if an event of default with respect to the Debentures has occurred and is continuing.

In connection with the issuance of the Debentures, Assured Guaranty Ltd. and AGUS entered into a replacement capital covenant (the Replacement Capital Covenant) in which Assured Guaranty Ltd. and AGUS covenanted that (i) AGUS will not redeem or repurchase the Debentures and (ii) Assured Guaranty Ltd. will not purchase the Debentures, in each case on or before December 15, 2046, except, subject to certain limitations, to the extent that the applicable redemption, repurchase or purchase price does not exceed a specified amount of proceeds from the sale, during the 180 days prior to the date of that redemption, repurchase or purchase, of common shares, rights to acquire common shares, and qualifying capital securities.

Subject to the Replacement Capital Covenant, the Debentures may be redeemed in whole or in part, subject to minimum amounts outstanding, at any time, on or after December 15, 2016, at the cash redemption price of 100% of the principal amount of the Debentures to be redeemed, plus accrued and unpaid interest, together with any compounded interest, on such Debentures to the date of redemption (the par redemption amount). AGUS may redeem the Debentures prior to December 15, 2016, in whole but not in part, at a price equal to the greater of (i) the par redemption amount and (ii) the applicable make-whole redemption amount.

The junior subordinated indenture governing the Debentures provides that only the following constitute events of default with respect to the Debentures that give a right to accelerate the amounts due under the Debentures: (i) default for 30 calendar days in the payment of any interest on the Debentures when such interest becomes due and payable (whether or not such payment is prohibited by the subordination provisions); however, a default under this provision will not arise if AGUS has properly deferred the interest in connection with an optional deferral period, (ii) any non-payment of interest, whether due to an optional deferral or otherwise, that continues for 10 consecutive years without all accrued and unpaid interest (including compounded interest thereon) having been paid in full, such non-payment continues for 30 days and Assured Guaranty Ltd. fails to make guarantee payments with respect thereto, (iii) default in the payment of the principal of, and premium, if any, on the Debentures when due, or (iv) certain events of bankruptcy, insolvency, or receivership, whether voluntary or not. Failure to comply with covenants is not an event of default under the junior subordinated indenture for purposes of declaring an acceleration of payment of the Debentures.

Committed Capital Securities

On April 8, 2005, AGC entered into separate agreements (the Put Agreements) with each of Woodbourne Capital Trust I, Woodbourne Capital Trust II, Woodbourne Capital Trust III and Woodbourne Capital Trust IV (each, a Custodial Trust) pursuant to which AGC may, at its option, cause each of the Custodial Trusts to purchase up to $50,000,000 of perpetual preferred stock of AGC (the AGC Preferred Stock).

Structure

Each of the Custodial Trusts is a newly organized Delaware statutory trust formed for the purpose of (i) issuing a series of flex committed capital securities (the CCS Securities) representing undivided beneficial interests in the assets of such Custodial Trust; (ii) investing the proceeds from the issuance of the CCS Securities or any redemption in full of AGC Preferred Stock in a portfolio of high-grade commercial paper and (in limited cases) U.S. Treasury Securities (the Eligible Assets), (iii) entering into the Put Agreement with AGC; and (iv) entering into related agreements.

Initially, all of the CCS Securities were issued to a special purpose pass-through trust (the Pass-Through Trust). The Pass-Through Trust is a newly created statutory trust organized under the Delaware Statutory Trust Act formed for the purposes of (i) issuing $200,000,000 of Pass-Through Trust Securities to qualified institutional buyers within the meaning of Rule 144A under the Securities Act of 1933, as amended, (ii) investing the proceeds from the sale of the Pass-Through Trust Securities in, and holding, the CCS Securities issued by the Custodial Trusts and (iii) entering into related agreements. Neither the Pass-Through Trust nor the Custodial Trusts are consolidated in Assured Guaranty s financial statements.

Income distributions on the Pass-Through Trust Securities will be equal to an annualized rate of One-Month LIBOR plus 110 basis points for all periods ending on or prior to April 8, 2008, and thereafter distributions will be determined pursuant to a remarketing process (the Flexed Rate Period) or pursuant to an auction process (the Auction Rate Mode). Distributions on the CCS Securities and dividends on the AGC Preferred Stock will be determined pursuant to the same process.

Put Agreement

Pursuant to the Put Agreement, AGC will pay a monthly put premium to each Custodial Trust except (1) during any period when the AGC Preferred Stock that has been put to a Custodial Trust is held by that Custodial Trust or (2) upon termination of the Put Agreement. The put premium will equal the product of (A) the applicable distribution rate on the CCS Securities for the respective distribution period less the excess of (i) the Custodial Trust s stated return on the Eligible Assets for such distribution period (including any fees and expenses of the Pass-Through Trust) (expressed as an annual rate) over (ii) the expenses of the Custodial Trust for such distribution period (expressed as an annual rate), (B) the aggregate face amount of the CCS Securities of the Custodial Trust outstanding on the date the put premium is calculated, and (C) a fraction, the numerator of which will be the actual number of days in such distribution period and the denominator of which will be 360. In addition, and as a condition to exercising the put option under a Put Agreement, AGC is required to enter into a Custodial Trust Expense Reimbursement Agreement with the respective Custodial Trust pursuant to which AGC agrees it will pay the fees and expenses of the Custodial Trust (which includes the fees and expenses of the Pass-Through Trust) during the period when such Custodial Trust holds AGC Preferred Stock.

Upon exercise of the put option granted to AGC pursuant to the Put Agreement, a Custodial Trust will liquidate its portfolio of Eligible Assets and purchase the AGC Preferred Stock and will hold the AGC Preferred Stock until the earlier of (i) the redemption of such AGC Preferred Stock and (ii) the liquidation or dissolution of the Custodial Trust.

Each Put Agreement has no scheduled termination date or maturity, however, it will terminate if (1) AGC fails to pay the put premium in accordance with the Put Agreement, and such failure continues for five business days, (2) during the Auction Rate Mode, AGC elects to have the AGC Preferred Stock bear a fixed rate dividend (a Fixed Rate Distribution Event), (3) AGC fails to pay (i) dividends on the AGC Preferred Stock, or (ii) the fees and expenses of the Custodial Trust, for the related dividend period, and such failure continues for five business days, (4) AGC fails to pay the redemption price of the AGC Preferred Stock and such failure continues for five business days, (5) the face amount of a Custodial Trust s CCS Securities is less than $20,000,000, (6) AGC elects to terminate the Put Agreement, or (7) a decree of judicial dissolution of the Custodial Trust is entered. If, as a result of AGC s failure to pay the put premium, the Custodial Trust is liquidated, AGC will be required to pay a termination payment which will be distributed to the holders of the Pass-Through Trust Securities. The termination payment will be at a rate equal to 1.10% per annum of the amount invested in Eligible Assets calculated from the date of the failure to pay the put premium through the end of the applicable period.

As of December 31, 2006 and 2005, the put option had not been exercised.

AGC Preferred Stock

AGC Preferred Stock will be issued in one or more series, with each series in an aggregate liquidation preference amount equal to the aggregate face amount of a Custodial Trust s outstanding CCS Securities, net of fees and expenses, upon exercise of the put option. Unless redeemed by AGC, the AGC Preferred Stock will be perpetual.

For each distribution period, holders of the outstanding AGC Preferred Stock of any series, in preference to the holders of common stock and of any other class of shares ranking junior to the AGC Preferred Stock, will be entitled to receive out of any funds legally available therefore when, as and if declared by the Board of Directors of AGC or a duly authorized committee thereof, cash dividends at a rate per share equal to the dividends rate for such series of AGC Preferred Stock for the respective distribution period. Prior to a Fixed Rate Distribution Event, the dividend rate on the AGC Preferred Stock will be equal to the distribution rate on the CCS Securities. The Custodial Trust s expenses (including any expenses of the Pass-Through Trust) for the period will be paid separately by AGC pursuant to the Custodial Trust Expense Reimbursement Agreement.

Upon a Fixed Rate Distribution Event, the distribution rate on the AGC Preferred Stock will equal the fixed rate equivalent of one-month LIBOR plus 2.50%. A Fixed Rate Distribution Event will be deemed to have occurred during the Auction Rate Mode when AGC Preferred Stock is outstanding, if: (1) AGC elects to have the AGC Preferred Stock bear dividends at a fixed rate, (2) AGC fails to pay dividends on the AGC Preferred Stock for the related distribution period and such failure continues for five business days or (3) AGC fails to pay the fees and expenses of the Custodial Trust for the related distribution period pursuant to the Custodial Trust Expense Reimbursement Agreement and such failure continues for five business days.

During the Flexed Rate Period and for any period in which AGC Preferred Stock is held by a Custodial Trust, dividends will be paid monthly, except that during the Auction Rate Mode dividends will be paid every 49 days. Following a Fixed Rate Distribution Event, dividends will be paid every 90 days.

Following exercise of the put option during any Flexed Rate Period, AGC may redeem the AGC Preferred Stock held by a Custodial Trust in whole and not in part on any distribution payment date by paying a redemption price to such Custodial Trust in an amount equal to the liquidation preference amount of the AGC Preferred Stock (plus any accrued but unpaid dividends on the AGC Preferred Stock for the then current distribution period). If AGC redeems the AGC Preferred Stock held by a Custodial Trust, the Custodial Trust will reinvest the redemption proceeds in Eligible Assets and, in accordance with the Put Agreement, AGC will pay the put premium to the Custodial Trust. If the AGC Preferred Stock was distributed to holders of CCS Securities during any Flexed Rate Period then AGC may not redeem the AGC Preferred Stock until the end of such period.

Following exercise of the put option during the Auction Rate Mode or at the end of any Flexed Rate Period, AGC may redeem the AGC Preferred Stock held by a Custodial Trust in whole or in part (x) on the final distribution payment date of the applicable Flexed Rate Period and (y) on any distribution payment date in the Auction Rate Mode, by paying a redemption price to the Custodial Trust in an amount equal to the liquidation preference amount of the AGC Preferred Stock to be redeemed (plus any accrued but unpaid dividends on such AGC Preferred Stock for the then current distribution period). If AGC partially redeems the AGC Preferred Stock held by a Custodial Trust, the redemption proceeds will be distributed pro rata to the holders of the CCS Securities and, if the Pass-Through Trust is the holder of CCS Securities, distributed by the Pass-Through Trust to holders of Pass-Through Securities (and a corresponding reduction in the aggregate face amount of CCS Securities and, if the Pass-Through Trust is the holder of CCS Securities, Pass-Through Trust Securities will be made); provided that AGC must redeem all of the AGC Preferred Stock if after giving effect to a partial redemption, the aggregate liquidation preference amount of the AGC Preferred Stock held by such Custodial Trust immediately following such redemption would be less than $20,000,000. If a Fixed Rate Distribution Event occurs, AGC may not redeem the AGC Preferred Stock for a period of two years from the date of such Fixed Rate Distribution Event.

Investment Portfolio

Our investment portfolio consisted of $2,331.1 million of fixed maturity securities, $134.1 million of short-term investments and had a duration of 3.9 years as of December 31, 2006, compared with $2,134.0 million of fixed maturity securities, $115.8 million of short-term investments and a duration of 4.4 years as of December 31, 2005. Our fixed maturity securities are designated as available-for-sale in accordance with FAS No. 115 Accounting for Certain Investments in Debt and Equity Securities (FAS 115) Fixed maturity securities are reported at their fair value in accordance with FAS 115, and the change in fair value is reported as part of accumulated other comprehensive income. If we believe the decline in fair value is other than temporary, we write down the carrying value of the investment and record a realized loss in our statement of operations.

The following table summarizes our investment portfolio as of December 31, 2006:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value(1)
	($ in millions)			
U.S. government and agencies	$ 256.5	$ 6.9	$ (1.4)	$ 262.1
Obligations of state and political subdivisions	874.7	43.6	(0.9)	917.4
Corporate securities	134.8	4.4	(1.2)	138.1
Mortgage-backed securities	732.5	4.0	(9.8)	726.6
Asset-backed securities	242.8	0.2	(0.9)	242.1
Foreign government securities	45.1		(0.3)	44.8
Total fixed maturity securities	2,286.4	59.2	(14.5)	2,331.1
Short-term investments	134.1			134.1
Total investments(1)	$ 2,420.4	$ 59.2	$ (14.5)	$ 2,465.1

(1) Totals may not add across and down due to rounding.

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The following table summarizes our investment portfolio as of December 31, 2005:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	($ in millions)			
U.S. government and agencies	$ 332.7	$ 9.0	$ (1.4)	$ 340.3
Obligations of state and political subdivisions	819.5	46.8	(1.6)	864.7
Corporate securities	127.2	6.3	(1.2)	132.3
Mortgage-backed securities	643.2	3.6	(9.2)	637.6
Asset-backed securities	141.6	0.1	(1.0)	140.7
Foreign government securities	18.2	0.3	(0.1)	18.4
Total fixed maturity securities	2,082.4	66.1	(14.5)	2,134.0
Short-term investments	115.8			115.8
Total investments	$ 2,198.2	$ 66.1	$ (14.5)	$ 2,249.8

The amortized cost and estimated fair value of our available-for-sale fixed maturity securities as of December 31, 2006 and 2005, by contractual maturity, 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.

See Note 9 of the notes to our consolidated financial statements for more information on our available-for-sale fixed maturity securities as of December 31, 2006 and 2005.

	As of December 31,			
	2006		2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	($ in millions)			
Due within one year	$ 25.1	$ 25.0	$ 67.9	$ 67.8
Due after one year through five years	396.7	399.3	280.5	283.7
Due after five years through ten years	340.8	349.8	406.4	417.4
Due after ten years	791.3	830.4	684.4	727.5
Mortgage-backed securities	732.5	726.6	643.2	637.6
Total	$ 2,286.4	$ 2,331.1	$ 2,082.4	$ 2,134.0

Fair value of the fixed maturity securities is based upon quoted market prices provided by either independent pricing services or, when such prices are not available, by reference to broker or underwriter bid indications. Our investment portfolio does not include any non-publicly traded securities. For a detailed description of our valuation of investments see Critical Accounting Estimates.

We review our investment portfolio for possible impairment losses. For additional information, see Critical Accounting Estimates.

The following table summarizes the ratings distributions of our investment portfolio as of December 31, 2006 and 2005. Ratings are represented by the lower of the Moody s and S&P classifications.

	As of December 31,			
	2006		2005	
AAA or equivalent	81.8	%	84.9	%
AA	13.5	%	10.7	%
A	4.7	%	4.4	%
BBB				
Total	100.0	%	100.0	%

As of December 31, 2006 and 2005, our investment portfolio did not contain any securities that were not rated or rated below investment grade.

Short-term investments include securities with maturity dates equal to or less than one year from the original issue date. Our short-term investments are composed of money market funds, discounted notes and certain time deposits for foreign cash portfolios. Short-term investments are reported at cost, which approximates the fair value of these securities due to the short maturity of these investments.

Under agreements with our cedants and in accordance with statutory requirements, we maintain fixed maturity securities in trust accounts for the benefit of reinsured companies and for the protection of policyholders, generally in states where we or our subsidiaries, as applicable, are not licensed or accredited. The carrying value of such restricted balances as of December 31, 2006 and 2005 was $610.5 million and $552.8 million, respectively.

Under certain derivative contracts, we are required to post eligible securities as collateral, generally cash or U.S. government or agency securities. The need to post collateral under these transactions is generally based on marked to market valuations in excess of contractual thresholds. The fair market values of our pledged securities totaled $0.9 million as of December 31, 2006 and $1.8 million as of December 31, 2005.

Market Risk

Market risk represents the potential for losses that may result from changes in the value of a financial instrument as a result of changes in market conditions. The primary market risks that impact the value of our financial instruments are interest rate risk, basis risk, such as taxable interest rates relative to tax-exempt interest rates, and credit spread risk. Each of these risks and the specific types of financial instruments impacted are described below. Senior managers in our surveillance department are responsible for monitoring risk limits and applying risk measurement methodologies. The estimation of potential losses arising from adverse changes in market conditions is a key element in managing market risk. We use various systems, models and stress test scenarios to monitor and manage market risk. These models include estimates made by management that use current and historic market information. The valuation results from these models could differ materially from amounts that actually are realized in the market. See Critical Accounting Estimates Valuation of Investments.

Financial instruments that may be adversely affected by changes in interest rates consist primarily of investment securities. The primary objective in managing our investment portfolio is generation of an optimal level of after-tax investment income while preserving capital and maintaining adequate liquidity. As a result, our investment portfolio consists of highly rated fixed income securities with a relatively short composite portfolio duration. Investment strategies are based on many factors, including our tax position, fluctuation in interest rates, regulatory and rating agency criteria and other market factors. As of January 1, 2005 we have retained BlackRock Financial Management, Inc. to manage our investment portfolio. Prior to January 1, 2005 Lazard Freres Asset Management and Hyperion Capital Management, Inc. performed this function. These investment managers manage our fixed maturity investment portfolio in accordance with investment guidelines approved by our Board of Directors.

See Item 7A, Quantitative and Qualitative Disclosures About Market Risk for more information.

Recent Accounting Pronouncements

In February 2006, the FASB issued FAS No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155) which amends FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133) and FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FAS 140), and addresses issues raised in FAS 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. The primary objectives of FAS 155 are: (i) with respect to FAS 133, to address the accounting for beneficial interests in securitized financial assets and (ii) with respect to FAS 140, eliminate a restriction on the passive derivative instruments that a qualifying special purpose entity may hold. FAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Because its application is prospective, FAS 155 will not effect our financial position or our results of operations as of December 31, 2006. However, FAS 155 will effect the Company s accounting for transactions entered into subsequent to January 1, 2007. In particular, FAS 155 will effect the Company s determination of which transactions are derivative or non-derivative in nature.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is expected to increase our January 1, 2007 retained earnings approximately $2.6 million.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, FAS 157 does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company plans to adopt FAS 157 beginning in the first quarter of 2008. The Company is currently evaluating the impact, if any, the adoption of FAS 157 will have on its results of operations or financial position.

In October 2006, the FASB issued FAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88,106 and 132(R) (FAS 158). FAS 158 represents the completion of the first phase in the FASB s postretirement benefits accounting project. FAS 158 is effective for fiscal years ending after December 15, 2006, for public entities, and at the end of fiscal years ending after June 15, 2007, for all other entities. Since the Company has no defined benefit pension or other postretirement plans, FAS 158 will have no impact on the Company s results of operations or financial position.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance as to how errors should be evaluated to assess materiality from a quantitative perspective. SAB 108 permits companies to initially apply its provisions by either restating prior financial statements or recording the cumulative effect of initially applying the approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment to retained earnings. At December 31, 2006, the date of required adoption, SAB 108 did not have an effect on the Company s consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning quantitative and qualitative disclosures about market risk appears in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Critical Accounting Estimates Valuation of Investments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
ASSURED GUARANTY LTD.

Management s Responsibility for Financial Statements and Internal Control Over Financial Reporting

Financial Statements

The consolidated financial statements of Assured Guaranty Ltd. were prepared by management, who are responsible for their reliability and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management. Financial information elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Board of Directors, operating through its Audit Committee, which is composed entirely of directors who are not officers or employees of the Company, provides oversight of the financial reporting process and safeguarding of assets against unauthorized acquisition, use or disposition. The Audit Committee annually recommends the appointment of an independent registered public accounting firm and submits its recommendation to the Board of Directors for approval.

The Audit Committee meets with management, the independent registered public accounting firm and the outside firm engaged to perform internal audit functions for the Company; approves the overall scope of audit work and related fee arrangements; and reviews audit reports and findings. In addition, the independent registered public accounting firm and the outside firm engaged to perform internal audit functions for the Company meet separately with the Audit Committee, without management representatives present, to discuss the results of their audits; the adequacy of the Company s internal control; the quality of its financial reporting; and the safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by an independent registered public accounting firm, PricewaterhouseCoopers LLP, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. The Company believes that all representations made to our independent registered public accounting firm during their audits were valid and appropriate.

Internal Control Over Financial Reporting

The management of Assured Guaranty Ltd. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2006, management has evaluated the effectiveness of the Company s internal control over financial reporting based on the criteria established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we have concluded that Assured Guaranty Ltd. s internal control over financial reporting was effective as of December 31, 2006.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report, has also audited management s assessment of the effectiveness of the Company s internal control over financial reporting and the effectiveness of the Company s internal controls over financial reporting as of December 31, 2006. The report, which expresses unqualified opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, is included in this Item under the heading Report of Independent Registered Public Accounting Firm.

/s/ DOMINIC J. FREDERICO		/s/ ROBERT B. MILLS
Dominic J. Frederico		Robert B. Mills
President and Chief Executive Officer		Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Assured Guaranty Ltd.:

We have completed integrated audits of Assured Guaranty Ltd. s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Assured Guaranty Ltd. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in Internal Control Over Financial Reporting appearing under item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

New York, New York

February 26, 2007

Assured Guaranty Ltd.
Consolidated Balance Sheets
(in thousands of U.S. dollars except per share and share amounts)

	As of December 31, 2006	2005
Assets		
Fixed maturity securities, at fair value (amortized cost: $2,286,373 in 2006 and $2,082,363 in 2005)	$ 2,331,071	$ 2,133,997
Short-term investments, at cost which approximates fair value	134,064	115,826
Total investments	**2,465,135**	**2,249,823**
Cash and cash equivalents	4,785	6,190
Accrued investment income	24,195	22,676
Deferred acquisition costs	217,029	193,442
Prepaid reinsurance premiums	7,500	12,478
Reinsurance recoverable on ceded losses	10,889	12,350
Premiums receivable	41,565	33,011
Goodwill	85,417	85,417
Unrealized gains on derivative financial instruments	52,596	53,037
Current income taxes receivable		3,005
Other assets	26,229	24,896
Total assets	**$ 2,935,340**	**$ 2,696,325**
Liabilities and shareholders equity		
Liabilities		
Unearned premium reserves	$ 644,496	$ 537,149
Reserves for losses and loss adjustment expenses	120,600	128,421
Profit commissions payable	35,994	52,993
Reinsurance balances payable	7,199	3,724
Current income taxes payable	7,196	
Deferred income taxes	39,906	26,629
Funds held by Company under reinsurance contracts	21,412	19,186
Unrealized losses on derivative financial instruments	6,687	12,652
Senior Notes	197,375	197,344
Series A Enhanced Junior Subordinated Debentures	149,708	
Liability for tax basis step-up adjustment	14,990	20,129
Other liabilities	39,016	36,585
Total liabilities	**1,284,579**	**1,034,812**
Commitments and contingencies		
Shareholders equity		
Common stock ($0.01 par value, 500,000,000 shares authorized; 67,534,024 and 74,761,577 shares issued and outstanding in 2006 and 2005)	675	748
Additional paid-in capital	711,256	881,998
Unearned stock grant compensation		(14,756)
Retained earnings	896,947	747,691
Accumulated other comprehensive income	41,883	45,832
Total shareholders equity	**1,650,761**	**1,661,513**
Total liabilities and shareholders equity	**$ 2,935,340**	**$ 2,696,325**

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

Assured Guaranty Ltd.
Consolidated Statements of Operations and Comprehensive Income
(in thousands of U.S. dollars except per share amounts)

	For the Years Ended December 31,		
	2006	2005	2004
Revenues			
Gross written premiums	$ 325,670	$ 252,100	$ 190,871
Ceded premiums	(6,998)	(34,778)	(111,301)
Net written premiums	318,672	217,322	79,570
(Increase) decrease in net unearned premium reserves	(112,018)	(18,596)	108,294
Net earned premiums	**206,654**	**198,726**	**187,864**
Net investment income	111,455	96,836	94,782
Net realized investment (losses) gains	(1,994)	2,248	11,989
Unrealized gains (losses) on derivative financial instruments	5,524	(3,516)	52,460
Other income	419	240	820
Total revenues	**322,058**	**294,534**	**347,915**
Expenses			
Loss and loss adjustment expenses	(6,756)	(69,564)	(31,979)
Profit commission expense	9,528	12,909	15,541
Acquisition costs	44,974	45,302	50,864
Other operating expenses	68,019	59,015	67,789
Interest expense	13,772	13,520	10,735
Other expense	2,547	3,731	1,645
Total expenses	**132,084**	**64,913**	**114,595**
Income before provision for income taxes	189,974	229,621	233,320
Provision (benefit) for income taxes			
Current	18,644	45,477	16,106
Deferred	11,596	(4,304)	34,426
Total provision for income taxes	**30,240**	**41,173**	**50,532**
Net income	**159,734**	**188,448**	**182,788**
Other comprehensive loss, net of taxes			
Unrealized holding losses on fixed maturity securities arising during the year	(7,533)	(29,658)	(7,353)
Reclassification adjustment for realized losses (gains) included in net income	1,458	(1,815)	(7,775)
Change in net unrealized gains on fixed maturity securities	(6,075)	(31,473)	(15,128)
Change in cumulative translation adjustment	2,544	(1,237)	593
Change in cash flow hedge	(418)	(418)	12,310
Other comprehensive loss, net of taxes	(3,949)	(33,128)	(2,225)
Comprehensive income	**$ 155,785**	**$ 155,320**	**$ 180,563**
Earnings per share:			
Basic	$ 2.18	$ 2.55	$ 2.44
Diluted	$ 2.15	$ 2.53	$ 2.44
Dividends per share	$ 0.14	$ 0.12	$ 0.06

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

Assured Guaranty Ltd.
Consolidated Statements of Shareholders Equity
For the years ended December 31, 2006, 2005 and 2004
(in thousands of U.S. dollars)

	Common Stock	Treasury Stock Held In Trust	Additional Paid-in Capital	Unearned Stock Grant Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
Balance, December 31, 2003	**$ 16,403**	**$**	**$ 955,490**	**$ (5,479)**	**$ 390,025**	**$ 81,185**	**$ 1,437,624**
Net income					182,788		182,788
Dividends ($0.06 per share)					(4,558)		(4,558)
Common stock issuance	750						750
Restricted stock issuance, net	10		17,863				17,873
Recapitalization due to IPO	(16,403)		16,403				
Common stock repurchases	(3)		(5,983)				(5,986)
Return of capital			(202,000)				(202,000)
Capital contribution			78,892				78,892
Tax benefit for stock options exercised			5,430				5,430
Tax basis step-up adjustment			28,124				28,124
Common stock held in trust		(7,850)		7,850			
Unearned stock grant compensation, net				(9,100)			(9,100)
Change in cash flow hedge, net of tax of $6,629						12,310	12,310
Change in cumulative translation adjustment						593	593
Unrealized loss on fixed maturity securities, net of tax of $(7,134)						(15,128)	(15,128)
Balance, December 31, 2004	**$ 757**	**$ (7,850)**	**$ 894,219**	**$ (6,729)**	**$ 568,255**	**$ 78,960**	**$ 1,527,612**
Net income					188,448		188,448
Dividends ($0.12 per share)					(9,012)		(9,012)
Restricted stock issuance, net	3		6,593				6,596
Common stock repurchases	(10)		(19,004)				(19,014)
Share activity under option and incentive plans, net	(2)		(3,874)				(3,876)
Tax benefit for stock options exercised			4,064				4,064
Vesting of common stock held in trust		7,850		(7,850)			
Unearned stock grant compensation, net							