ASSURED GUARANTY LTD
Form 10-Q/A
November 14, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One) **Amendment No. 1 to Form 10-Q**

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

For the Quarterly Period Ended June 30, 2011

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 No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**98-0429991**
(State or other jurisdiction of incorporation)	(I.R.S. employer identification no.)

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(Address of principal executive offices)

(441) 279-5700

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 number of registrant s Common Shares ($0.01 par value) outstanding as of November 4, 2011 was 182,228,965 (excludes 76,060 unvested restricted shares).

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Assured Guaranty Ltd.

Form 10-Q/A

Explanatory Note

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

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

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

- Part I Item 1. Financial Statements;
- Part I Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations;
- Part I Item 4. Controls and Procedures; and
- Part II Item 6. Exhibits.

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

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

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Assured Guaranty Ltd.

Consolidated Balance Sheets (Unaudited)

(dollars in thousands except per share and share amounts)

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

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

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Assured Guaranty Ltd.

Consolidated Statements of Operations (Unaudited)

(dollars in thousands except per share amounts)

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

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

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

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

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

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders Equity (Unaudited)

For the Six Months Ended June 30, 2011

(dollars in thousands, except share data)

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

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

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011

1. Business and Basis of Presentation

Business

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

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

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

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

Basis of Presentation

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

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

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

Change in Accounting Policy

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

2. Restatement of Previously Issued Financial Statements

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

	Six Months Ended June 30, 2010 (1)		
	As Previously Filed	FG VIE Eliminations	Restated
Net cash flows provided by (used in) operating activities	**$ (249.5)**	**$ 31.9**	**$ (217.6)**
Investing activities			
Fixed maturity securities:			
Purchases	(1,166.3)		(1,166.3)
Sales	780.8		780.8
Maturities	488.6		488.6
Net sales (purchases) of short-term investments	276.6	(27.9)	248.7
Net proceeds from paydowns on financial guarantyvariable interest entities assets	217.3		217.3
Other	8.3		8.3
Net cash flows provided by (used in) investing activities	**605.3**	**(27.9)**	**577.4**
Financing activities			
Dividends paid	(16.6)		(16.6)
Share repurchases	(10.5)		(10.5)
Share activity under option and incentive plans	(2.3)		(2.3)
Net paydowns of financial guaranty variable interest entities liabilities	(259.4)		(259.4)
Repayment of long-term debt	(10.8)		(10.8)
Net cash flows provided by (used in) financing activities	**(299.6)**		**(299.6)**
Effect of exchange rate changes	(3.1)		(3.1)
Increase (decrease) in cash	53.1	4.0	57.1
Cash at beginning of period	44.1		44.1
Cash at end of period	**$ 97.2**	**$ 4.0**	**$ 101.2**

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

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

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

3. Business Changes, Risks, Uncertainties and Accounting Developments

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

Recoveries for Breaches of Representations and Warranties

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

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

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

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

4. Outstanding Exposure

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

Debt Service Outstanding

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Financial Guaranty Net Par Outstanding by Internal Rating

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

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

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

Surveillance Categories

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

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

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

Assured Guaranty Ltd.

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June 30, 2011

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

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

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make lifetime losses possible, but for which none are currently expected. Transactions on which claims have been paid but are expected to be fully reimbursed (other than investment grade transactions on which only liquidity claims have been paid) are in this category.

- BIG Category 2: Below-investment-grade transactions for which lifetime losses are expected but for which no claims (other than liquidity claims) have yet been paid.

- BIG Category 3: Below-investment-grade transactions for which lifetime losses are expected and on which claims (other than liquidity claims) have been paid. Transactions remain in this category when claims have been paid and only a recoverable remains.

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

Financial Guaranty Exposures

(Insurance and Credit Derivative Form)

	June 30, 2011					
	BIG Net Par Outstanding					
	BIG 1	BIG 2	BIG 3	Total BIG	Net Par Outstanding	BIG Net Par as a % of Net Par Outstanding
			(in millions)			
First lien U.S. RMBS:						
Prime first lien	$ 26	$ 582	$	$ 608	$ 786	0.1%
Alt-A first lien	1,127	2,397	1,487	5,011	5,731	0.9
Option ARM	0	1,302	1,260	2,562	2,809	0.4
Subprime (including net interest margin securities)	334	2,468	212	3,014	8,572	0.5
Second lien U.S. RMBS:						
Closed-end second lien	153	438	467	1,058	1,087	0.2
Home equity lines of credit (HELOCs)	470		3,134	3,604	4,281	0.6
Total U.S. RMBS	2,110	7,187	6,560	15,857	23,266	2.7
Other structured finance	3,756	424	2,428	6,608	109,430	1.1
Public finance	4,241	204	865	5,310	454,500	0.9
Total	$ 10,107	$ 7,815	$ 9,853	$ 27,775	$ 587,196	4.7%

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June 30, 2011

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

By Category Below-Investment-Grade Credits

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

	As of December 31, 2010					
	Net Par Outstanding			Number of Risks(3)		
Description	Financial Guaranty Insurance(1)	Credit Derivative(2)	Total (dollars in millions)	Financial Guaranty Insurance(1)	Credit Derivative(2)	Total

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

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

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

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

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5. Financial Guaranty Insurance Contracts

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

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

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

Net Earned Premiums

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

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

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

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

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Gross Premium Receivable, Net of Ceding Commissions Roll Forward

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

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

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

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

Expected Collections of Gross Premiums Receivable,

Net of Ceding Commissions

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

(1) Represents undiscounted amounts expected to be collected.

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

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

Net Unearned Premium Reserve

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

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

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

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

Expected Timing of Financial Guaranty Insurance

Premium and Loss Recognition

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

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

(2) Balances represent discounted amounts.

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

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June 30, 2011

Selected Information for Policies Paid in Installments

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

Loss Estimation Process

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

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

Financial Guaranty Insurance

Present Value of Net Expected Loss to be Paid

Roll Forward by Sector(1)

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

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

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

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

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

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

Reconciliation of Present Value of Net Expected Loss to be Paid

and Present Value of Net Expected Loss to be Expensed

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

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

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

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

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

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

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

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

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default, and when, by first converting the projected near-term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates, then projecting how the conditional default rates will develop over time. Loans that are defaulted pursuant to the conditional default rate after the liquidation of currently delinquent loans represent defaults of currently performing loans. A conditional default rate is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (or collateral pool balance). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal repayments, and defaults.

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

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

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

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

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

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

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

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

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

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

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

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

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

Assumptions in Base Case Expected Loss Estimates

Second Lien RMBS(1)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following table shows liquidation assumptions for various delinquency categories.

First Lien Liquidation Rates

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

While the Company uses liquidation rates as described above to project defaults of non-performing loans, it projects defaults on presently current loans by applying a conditional default rate trend. The start of that conditional default rate trend is based on the defaults the Company projects will emerge from currently nonperforming loans. The total amount of expected defaults from the non-performing loans is translated into a constant conditional default rate (*i.e.*, the conditional default rate plateau), which, if applied for each of the next 24 months, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The conditional default rate thus calculated individually on the collateral pool for each RMBS is then used as the starting point for the conditional default rate curve used to project defaults of the presently performing loans.

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

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

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

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Key Assumptions in Base Case Expected Loss Estimates of First Lien RMBS Transactions

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

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

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

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

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

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Breaches of Representations and Warranties

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

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

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

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

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Balance Sheet Classification of R&W Benefit

	As of June 30, 2011			As of December 31, 2010		
	Benefit for R&W	Effect of Consolidating FG VIEs	Reported on Balance Sheet	Benefit for R&W	Effect of Consolidating FG VIEs	Reported on Balance Sheet
	(in billions)					
Salvage and subrogation recoverable	$ 0.4	$ (0.2)	$ 0.2	$ 0.9	$ (0.1)	$ 0.8
Loss and LAE reserve	0.9	(0.1)	0.8	0.5	(0.1)	0.4
Unearned premium reserve	0.2		0.2	0.2		0.2
Total	$ 1.5	$ (0.3)	$ 1.2	$ 1.6	$ (0.2)	$ 1.4

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

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

Net of Reinsurance

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

	Future Net R&W Benefit at December 31, 2009	R&W Development and Accretion of Discount During Six Months 2010	R&W Recovered During Six Months 2010(1)	Future Net R&W Benefit at June 30, 2010
		(in millions)		
Prime first lien	$	$ 0.8	$	$ 0.8
Alt-A first lien	64.2	15.0		79.2
Option ARM	203.7	52.4	(13.3)	242.8
Subprime				
Closed-end second lien	76.5	46.5		123.0
HELOC	828.7	97.2	(50.9)	875.0
Total	$ 1,173.1	$ 211.9	$ (64.2)	$ 1,320.8

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

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

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

as of June 30, 2011 and December 31, 2010

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

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

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

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

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

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

Student Loan Transactions

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

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

XXX Life Insurance Transactions

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

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

Other Notable Loss or Claim Transactions

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

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

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

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

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

Recovery Litigation

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

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

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

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

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

In September 2010, AGM, together with TD Bank, National Association and Manufacturers and Traders Trust Company, filed a complaint in the Court of Common Pleas in the Supreme Court of Pennsylvania against The Harrisburg Authority, The City of Harrisburg, Pennsylvania (the City), and the Treasurer of the City in connection with certain Resource Recovery Facility bonds and notes issued by the Harrisburg Authority, alleging, among other claims, breach of contract by both the Harrisburg Authority and the City, and seeking remedies including an order compelling the Harrisburg Authority to pay all unpaid and past due principal and interest and to charge and collect sufficient rates, rental and other charges adequate to carry out its pledge of revenues and receipts; an order compelling the City to budget for, impose and collect taxes and revenues sufficient to satisfy its obligations; and the appointment of a receiver for the Harrisburg Authority. See Note 17.

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

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Net Loss Summary

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

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

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

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

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

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

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Loss and LAE Reported

on the Consolidated Statements of Operations

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

Net Losses Paid on Financial Guaranty Insurance Contracts(1)

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

Financial Guaranty Insurance BIG Transaction Loss Summary

June 30, 2011

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

Financial Guaranty Insurance BIG Transaction Loss Summary

December 31, 2010

	BIG Categories					
	BIG 1		BIG 2		BIG 3	

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

(1) Includes BIG amounts relating to FG VIEs.

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

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

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

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Components of Net Reserves (Salvage)

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

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

Ratings Impact on Financial Guaranty Business

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

6. Fair Value Measurement

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

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

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

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

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

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) (Topic 820: Fair Value Measurement). ASU 2011-04 develops common requirements for measuring fair value and for disclosing information about fair value measurements to improve the comparability of financial statements prepared in accordance with U.S. GAAP and IFRSs. ASU 2011-04 does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011, which corresponds to the Company s first quarter of fiscal year 2012. Early application by public entities is not permitted. Accordingly, the Company has not yet adopted this guidance and is evaluating the impact of this pronouncement.

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Financial Instruments Carried at Fair Value

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

Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of June 30, 2011

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

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June 30, 2011

Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of December 31, 2010

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

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

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Changes in Level 3 Fair Value Measurements

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

Fair Value Level 3 Roll Forward

Recurring Basis

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

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

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Assured Guaranty Ltd.

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June 30, 2011

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

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

Other comprehensive income (loss)							
Purchases, issuances, sales, settlements, net	93.1	13.7	2.6	(114.5)	(85.1)	62.6	48.6
Consolidations, Deconsolidations, net				48.8		(71.5)	
Transfers in and/or out of Level 3(7)	63.8	18.8					
Fair value at June 30, 2010	$ 102.9	$ 230.3	$ 2.6	$ 1,844.7	$ (1,274.9)	$ (2,107.5)	$ (184.9)
Change in unrealized gains/(losses) related to financial instruments held at June 30, 2010	$ (59.6)	$ 9.1	$	$ 96.5	$ 294.6	$ (185.8)	$ 1.9

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

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Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

(2) Included in net realized investment gains (losses) and net investment income.

(3) Included in net change in fair value of FG VIEs.

(4) Recorded in other income.

(5) Represents net position of credit derivatives. The consolidated balance sheet presents gross assets and liabilities based on net counterparty exposure.

(6) Reported in net change in fair value of credit derivatives.

(7) After analyzing prices provided by a third party pricing service, the Company determined it was necessary to reduce the pricing on one security based on the Company s own cash flow analysis which was deemed a level 3.

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

Fair Value of Financial Instruments

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

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

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

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

7. Financial Guaranty Contracts Accounted for as Credit Derivatives

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

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

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

Credit Derivative Net Par Outstanding by Sector

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

Credit Derivatives Net Par Outstanding

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

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

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

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

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June 30, 2011

The Company s exposure to pooled corporate obligations is highly diversified in terms of obligors and, except in the case of collateralized debt obligations backed by trust preferred securities (TruPS CDOs), industries. Most pooled corporate transactions are structured to limit exposure to any given obligor and industry. The majority of the Company s pooled corporate exposure consists of collateralized loan obligations (CLOs) or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% of the total transaction and typically restrict the maximum exposure to any one industry to approximately 10%. The Company s exposure also benefits from embedded credit enhancement in the transactions, which allows a transaction to sustain a certain level of losses in the underlying collateral, further insulating the Company from industry-specific concentrations of credit risk on these deals.

The Company s TruPS CDO asset pools are generally less diversified by obligors and industries than the typical CLO asset pool. Also, the underlying collateral in TruPS CDOs consists primarily of subordinated debt instruments such as TruPS CDOs issued by banks, real estate investment trusts and insurance companies, while CLOs typically contain primarily senior secured obligations. Finally, TruPS CDOs typically contain interest rate hedges that may complicate the cash flows. However, to mitigate these risks TruPS CDOs were typically structured with higher levels of embedded credit enhancement than typical CLOs.

The Company s exposure to Other CDS contracts is also highly diversified. It includes $3.6 billion of exposure to three pooled infrastructure transactions comprising diversified pools of international infrastructure project transactions and loans to regulated utilities. These pools were all structured with underlying credit enhancement sufficient for the Company to attach at super senior AAA levels. The remaining $8.3 billion of exposure in Other CDS contracts comprises numerous deals typically structured with significant underlying credit enhancement and spread across various asset classes, such as commercial receivables, international RMBS securities, infrastructure, regulated utilities and consumer receivables.

The following table summarizes net par outstanding by rating of the credit derivatives portfolio.

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

Ratings	June 30, 2011 Net Par Outstanding	June 30, 2011 % of Total	December 31, 2010 Net Par Outstanding	December 31, 2010 % of Total
	(dollars in millions)			
Super Senior	$ 27,321	27.9%	$ 29,344	26.7%
AAA	44,074	45.0	50,214	45.7

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

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

U.S. Residential Mortgage-Backed Securities

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

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

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

Commercial Mortgage-Backed Securities

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

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

Net Change in Fair Value of Credit Derivatives

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

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

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

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

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Net Unrealized Gains (Losses) on Credit Derivatives

By Sector

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

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

Components of Credit Derivative Assets (Liabilities)

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

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

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Net Fair Value and Expected Losses of Credit Derivatives by Sector

As of June 30, 2011

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

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

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

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

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

1. the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction (bank profit);

2. premiums paid to the Company for the Company s credit protection provided (net spread); and

3. the cost of CDS protection purchased on the Company by the originator to hedge their counterparty credit risk exposure to the Company (hedge cost).

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

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

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

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

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

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

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

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

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

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

Ratings Sensitivities of Credit Derivative Contracts

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

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

8. Consolidation of Variable Interest Entities

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

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

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

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

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

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

Consolidated FG VIEs

By Type of Collateral

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

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

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Effect of Consolidating FG VIEs on Net Income

and Shareholders Equity

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

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

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

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

Contractual Maturity Schedule of FG VIE Liabilities with Recourse

Gross Par Outstanding

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

Non-Consolidated VIEs

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

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9. Investments

Fixed Maturity Securities and Short-Term Investments

Net Investment Income

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

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

Net Realized Investment Gains (Losses)

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

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

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

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

Roll Forward of Credit Losses in the Investment Portfolio

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

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June 30, 2011

Fixed Maturity Securities and Short-Term Investments

by Security Type

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

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

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

(1) Based on amortized cost.

(2) Accumulated OCI (AOCI).

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

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

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

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

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

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

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

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

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

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Revenue Sources

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

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

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

Fixed Maturity Securities

Gross Unrealized Loss by Length of Time

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

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

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

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

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

Distribution of Fixed Maturity Securities

by Contractual Maturity

	As of June 30, 2011	
	Amortized Cost	Estimated Fair Value

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

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

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

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

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

10. Insurance Company Regulatory Requirements

Dividend Restrictions and Capital Requirements

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

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

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

11. Income Taxes

Provision for Income Taxes

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

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

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

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

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

Effective Tax Rate Reconciliation

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

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

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

Pretax Income (Loss) by Tax Jurisdiction(1)

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

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Revenue by Tax Jurisdiction(1)

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

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

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

Valuation Allowance

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

12. Reinsurance

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

Assumed Business

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

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

• upon certain changes of control of the Company.

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

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

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

Ceded Business

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

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

Net Effect of Commutations and Cancellations

of Reinsurance Contracts

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

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

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

Direct, Assumed and Ceded Premium and Loss and LAE

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

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

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

Reinsurer Exposure

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

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Exposure by Reinsurer

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

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

(2) Represents Withdrawn Rating.

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

Amounts Due (To) From Reinsurers

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

13. Commitments and Contingencies

Legal Proceedings

Litigation

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

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

Proceedings Relating to the Company s Financial Guaranty Business

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

Beginning in December 2008, AGM and various other financial guarantors were named in complaints filed in the Superior Court, San Francisco County, California. Since that time, plaintiffs counsel has filed amended complaints against AGC and AGM and added additional plaintiffs. As of August 9, 2011, the plaintiffs with complaints against AGM and AGC, among other financial guaranty insurers, were: (a) *City of Los Angeles, acting by and through the Department of Water and Power*; (b) City of *Sacramento*; (c) *City of Los Angeles*; (d) *City of Oakland;* (e) *City of Riverside*; (f) *City of Stockton*; (g) *County of Alameda;* (h) *County of Contra Costa*; (i) *County of San Mateo*; (j) *Los Angeles World Airports;* (k) *City of Richmond;* (l) *Redwood City;* (m) *East Bay Municipal Utility District;* (n) *Sacramento Suburban Water District;* (o) *City of San Jose;* (p) *County of Tulare;* (q) *The Regents of the University of California;* (r) *The Redevelopment Agency of the City of Riverside;* (s) *The Public Financing Authority of the City of Riverside;* (t) *The Jewish Community Center of San Francisco;* (u) T*he San Jose Redevelopment Agency;* and (v) *The Olympic Club*. Complaints filed by the *City and County of San Francisco* and the Sacramento Municipal Utility District were subsequently dismissed against AGC and AGM. At a hearing on March 1, 2010, the court struck all of the plaintiffs complaints with leave to amend. The court instructed plaintiffs to file one consolidated complaint. On October 13, 2010, plaintiffs counsel filed three consolidated complaints, two of which also added the three major credit rating agencies as defendants in addition to the financial guaranty insurers. In November 2010, the credit rating agency defendants filed a motion to remove the cases to the Northern District of California and plaintiffs responded with a motion to remand the cases back to California state court. On January 31, 2011, the court for the Northern District of California granted plaintiffs motion and the action was remanded to the Superior Court, San Francisco County, California. These complaints allege that the financial guaranty insurer defendants (i) participated in a conspiracy in violation of California s antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance, (ii) participated in risky financial transactions in other lines of business that damaged each insurer s financial condition (thereby undermining the value of each of their guaranties), and (iii) failed to adequately disclose the impact of those transactions on their financial condition. In addition to their antitrust claims, various plaintiffs in these actions assert claims for breach of the covenant of good faith and fair dealing, fraud, unjust enrichment, negligence, and negligent misrepresentation. At a hearing held on July 6 and 7, 2011 relating to AGM, AGC and the other defendants motion to dismiss, the court overruled the motion to dismiss on the following claims: breach of contract and violation of California s antitrust statute and of its unfair business practices law. The court sustained the motion to dismiss on the fraud claim, with leave to amend. The remaining claims were dismissed without leave to amend. The court ordered the plaintiffs to file their amended complaint by August 8, 2011 and scheduled a hearing for October 13, 2011. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss that may arise from these lawsuits. See Note 17.

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

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

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

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

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

Proceedings Related to AGMH s Former Financial Products Business

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

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Governmental Investigations into Former Financial Products Business

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

• AGMH received a subpoena from the Antitrust Division of the Department of Justice in November 2006 issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives;

• AGM received a subpoena from the SEC in November 2006 related to an ongoing industry-wide investigation concerning the bidding of municipal GICs and other municipal derivatives; and

• AGMH received a Wells Notice from the staff of the Philadelphia Regional Office of the SEC in February 2008 relating to the investigation concerning the bidding of municipal GICs and other municipal derivatives. The Wells Notice indicates that the SEC staff is considering recommending that the SEC authorize the staff to bring a civil injunctive action and/or institute administrative proceedings against AGMH, alleging violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act.

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

Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These cases have been coordinated and consolidated for pretrial proceedings in the U.S. District Court for the Southern District of New York as *MDL 1950, In re Municipal Derivatives Antitrust Litigation,* Case No. 1:08-cv-2516 (MDL 1950).

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

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

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

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

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

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

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

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

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

14. Long-Term Debt and Credit Facilities

Long-Term Debt Obligations

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

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Principal and Carrying Amounts of Debt

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

Recourse Credit Facilities

2006 Credit Facility

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

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

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

The 2006 Credit Facility s financial covenants require that AGL:

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

(b) maintain a maximum debt-to-capital ratio of 30%.

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

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

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

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

2009 Strip Coverage Facility

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

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

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

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

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

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

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

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

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

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

Limited Recourse Credit Facilities

AG Re Credit Facility

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

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

AGM Credit Facility

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

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

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Committed Capital Securities

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

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

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

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Committed Capital Securities

Fair Value Gain (Loss)

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

15. Earnings Per Share

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

16. Subsidiary Information

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

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2011

(in millions)

(Restated)

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

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2010

(in millions)

(Restated)

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

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2011

(in millions)

(Restated)

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2010

(in millions)

(Restated)

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

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2011

(in millions)

(Restated)

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

(in millions)

(Restated)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Revenues						
Net earned premiums	$	$	$	$ 602.0	$ 9.7	$ 611.7
Net investment income			0.2	182.5	(7.5)	175.2
Net realized investment gains (losses)				(3.1)	4.1	1.0
Net change in fair value of credit derivatives:						
Realized gains and other settlements				65.1		65.1
Net unrealized gains (losses)				287.2		287.2
Net change in fair value of credit derivatives				352.3		352.3
Equity in earnings of subsidiaries	526.7	434.3	287.3	419.7	(1,668.0)	
Other income(1)				(51.3)	(0.1)	(51.4)
Total revenues	526.7	434.3	287.5	1,502.1	(1,661.8)	1,088.8
Expenses						
Loss and LAE				194.5	2.1	196.6
Amortization of deferred acquisition costs				19.9	(4.8)	15.1
Interest expense		19.6	26.8	11.1	(7.5)	50.0
Other operating expenses(2)	14.1	2.8	1.2	99.3	(0.6)	116.8
Total expenses	14.1	22.4	28.0	324.8	(10.8)	378.5
Income (loss) before income taxes	512.6	411.9	259.5	1,177.3	(1,651.0)	710.3
Total provision (benefit) for income taxes		(7.8)	(9.6)	204.9	10.2	197.7
Net income (loss)	$ 512.6	$ 419.7	$ 269.1	$ 972.4	$ (1,661.2)	$ 512.6

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

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011

(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries (restated)	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated) (restated)
Net cash flows provided by (used in) operating activities	**$ 12.7**	**$ 6.6**	**$ (13.0)**	**$ 659.6**	**$ (34.0)**	**$ 631.9**
Cash flows from investing activities						
Fixed maturity securities:						
Purchases			(0.3)	(1,349.4)		(1,349.7)
Sales				686.0		686.0
Maturities			0.4	325.3		325.7
Sales (purchases) of short-term investments, net	6.5	(17.3)	(12.1)	(27.0)		(49.9)
Net proceeds from financial guaranty variable entities assets				424.0		424.0
Investment in subsidiary			25.0		(25.0)	
Other				8.7		8.7
Net cash flows used in investing activities	**6.5**	**(17.3)**	**13.0**	**67.6**	**(25.0)**	**44.8**
Cash flows from financing activities						
Return of capital				(25.0)	25.0	
Dividends paid	(16.6)			(34.0)	34.0	(16.6)
Repurchases of common stock						
Share activity under option and incentive plans	(2.6)					(2.6)
Net paydowns of financial guaranty variable entities liabilities				(593.3)		(593.3)
Issuance of debt						
Payment of long-term debt				(10.3)		(10.3)
Net cash flows provided by (used in) financing activities	**(19.2)**			**(662.6)**	**59.0**	**(622.8)**

Effect of exchange rate changes				3.2		3.2
Increase (decrease) in cash		(10.7)		67.8		57.1
Cash at beginning of period		13.0		95.4		108.4
Cash at end of period	**$**	**$ 2.3**	**$**	**$ 163.2**	**$**	**$ 165.5**

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Subsidiaries (restated)	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated) (restated)
Net cash flows provided by (used in) operating activities	**$ (2.1)**	**$ 10.7**	**$ (25.1)**	**$ (171.1)**	**$ (30.0)**	**$ (217.6)**
Cash flows from investing activities						
Fixed maturity securities:						
Purchases				(1,166.3)		(1,166.3)
Sales				780.8		780.8
Maturities			4.1	484.5		488.6
Sales (purchases) of short-term investments, net	31.5	(10.8)	(2.4)	230.4		248.7
Net proceeds from financial guaranty variable entities assets				217.3		217.3
Investment in subsidiary			25.0		(25.0)	
Other				8.3		8.3
Net cash flows used in investing activities	**31.5**	**(10.8)**	**26.7**	**555.0**	**(25.0)**	**577.4**
Cash flows from financing activities						
Return of capital				(25.0)	25.0	
Dividends paid	(16.6)			(30.0)	30.0	(16.6)
Repurchases of common stock	(10.5)					(10.5)
Share activity under option and incentive plans	(2.3)					(2.3)
Net paydowns of financial guaranty variable entities liabilities				(259.4)		(259.4)
Issuance of debt						
Payment of long-term debt				(10.8)		(10.8)
Net cash flows provided by (used in) financing activities	**(29.4)**			**(325.2)**	**55.0**	**(299.6)**

Effect of exchange rate changes				(3.1)		(3.1)
Increase (decrease) in cash		(0.1)	1.6	55.6		57.1
Cash at beginning of period		0.1		44.0		44.1
Cash at end of period	**$**	**$**	**$ 1.6**	**$ 99.6**	**$**	**$ 101.2**

17. Subsequent Events

Rating Agency Actions

On September 27, 2011, S&P published a Research Update in which it placed its ratings of Assured Guaranty on CreditWatch Negative. This action included changing the financial strength ratings of AGC and AGM from AA+ (Negative Outlook) to AA+ (CreditWatch Negative), and the AA (Negative Outlook) rating of AG Re to AA (CreditWatch Negative), signifying that S&P may downgrade such financial strength ratings in the near future. In the Research Update, S&P stated that the CreditWatch placement is due to significant concentration risk in Assured Guaranty s consolidated insured portfolio; the portfolio contains exposures that are not consistent with S&P s new bond insurance rating criteria and breach the largest obligor test in such new criteria. The largest obligor test appears to have the effect of significantly reducing Assured Guaranty s allowed single risk limits and limiting its financial strength rating level. S&P published updated criteria in *Bond Insurance Rating Methodology and Assumptions* on August 25, 2011, subsequent to S&P s publication of *Request for Comment: Bond Insurance Criteria* on January 24, 2011. According to S&P, based on statements from Assured Guaranty s management that Assured Guaranty intends to take action such as create capital or utilize additional forms of reinsurance to mitigate these concentration risks, it is likely such actions, if taken, would support financial strength ratings in the AA category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. The Company is considering transactions that are designed to create capital and/or mitigate its concentration risks but can give no assurance that it will be able to complete the transactions at all or on terms that are acceptable. If it cannot do so, S&P may downgrade the financial strength ratings of AGL and its subsidiaries, which downgrade may have an adverse impact on the Company s financial condition, results of operation, liquidity, business prospects or other aspects of the Company s business and on its insured portfolio. See Notes 5, 7 and 12 for the potential impact of a financial strength rating downgrade on the Company and on the insured portfolio.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

June 30, 2011

Litigation Update

In October 2011, AGM and AGC brought an action in the Supreme Court of the State of New York against DLJ Mortgage Capital, Inc. (DLJ) and Credit Suisse Securities (USA) LLC (Credit Suisse) with regard to six first lien U.S. RMBS transactions insured by them: CSAB Mortgage-Backed Pass Through Certificates, Series 2006-2; CSAB Mortgage-Backed Pass Through Certificates, Series 2006-3; CSAB Mortgage-Backed Pass Through Certificates, Series 2006-4; CMSC Mortgage-Backed Pass Through Certificates, Series 2007-3; CSAB Mortgage-Backed Pass Through Certificates, Series 2007-1; and TBW Mortgage-Backed Pass Through Certificates, Series 2007-2. The complaint alleges breaches of R&W against DLJ in respect of the underlying loans in the transactions, breaches of R&W against DLJ and Credit Suisse in respect of the accuracy of the information provided to the rating agencies, and failure by DLJ to cure or repurchase defective loans identified by AGM and AGC. In this lawsuit, AGM and AGC seek damages.

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

In September 2010, AGM, together with TD Bank, National Association and Manufacturers and Traders Trust Company, as trustees, filed a complaint in the Court of Common Pleas of Dauphin County, Pennsylvania against The Harrisburg Authority, The City of Harrisburg, Pennsylvania, and the Treasurer of the City in connection with certain Resource Recovery Facility bonds and notes issued by The Harrisburg Authority, alleging, among other claims, breach of contract by both The Harrisburg Authority and The City of Harrisburg, and seeking remedies including an order of mandamus compelling the City to satisfy its obligations on the defaulted bonds and notes and the appointment of a receiver for The Harrisburg Authority. Acting on its own, the City Council of Harrisburg filed a purported bankruptcy petition for the City on October 11, 2011. As a result of the bankruptcy petition, the actions brought by AGM and the trustees against the City and The Harrisburg Authority have been stayed. A number of parties in interest, including AGM and the Commonwealth of Pennsylvania, have filed objections seeking the dismissal of the bankruptcy petition filed by City Council. A hearing to address the objections raised to date has been scheduled by the Bankruptcy Judge for November 23, 2011.

Beginning in December 2008, AGM and various other financial guarantors were named in complaints filed in the Superior Court, San Francisco County, California. Since that time, plaintiffs counsel has filed amended complaints against AGC and AGM and added additional plaintiffs. As of the date of this filing, the plaintiffs with complaints against AGM and AGC, among other financial guaranty insurers, are: (a) *City of Los Angeles, acting by and through the Department of Water and Power*; (b) City of *Sacramento*; (c) *City of Los Angeles*; (d) *City of Oakland;* (e) *City of Riverside*; (f) *City of Stockton*; (g) *County of Alameda;* (h) *County of Contra Costa*; (i) *County of San Mateo*; (j) *Los Angeles World Airports;* (k) *City of Richmond;* (l) *Redwood City;* (m) *East Bay Municipal Utility District;* (n) *Sacramento Suburban Water District;* (o) *City of San Jose;* (p) *County of Tulare;* (q) *The Regents of the University of California;* (r) *The Redevelopment Agency of the City of Riverside;* (s) *The Public Financing Authority of the City of Riverside;* (t) *The Jewish Community Center of San Francisco;* (u) T*he San Jose Redevelopment Agency;* (v) *The Redevelopment Agency of the City of Stockton;* (w) *The Public Financing Authority of the City of Stockton;* and (x) *The Olympic Club*. Complaints filed by the *City and County of San Francisco* and the Sacramento Municipal Utility District were subsequently dismissed against AGC and AGM. At hearings held in July and October 2011 relating to AGM, AGC and the other defendants motion to dismiss, the court overruled the motion to dismiss on the following claims: breach of contract, violation of California s antitrust statute and of its unfair business practices law, and fraud. The remaining claims were dismissed. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss that may arise from these lawsuits.

In September 2010, AGM, among others, was named as a defendant in an interpleader complaint filed by Wells Fargo Bank, N.A., as trust administrator, in the United States District Court, Southern District of New York. The interpleader complaint relates to the MASTR Adjustable Rate Mortgages Trust 2006-OA2, Mortgage Pass-Through Certificates, Series 2006-OA2 RMBS transaction, in which AGM had insured certain classes of certificates. Certain holders of uninsured certificates have disputed payments made by the trust administrator to reimburse AGM for claims it had paid under its financial guaranty policy, and the trust administrator sought adjudication of the priority of AGM s reimbursements. On March 29, 2011, the court granted a motion for judgment on the pleadings and ruled that, pursuant to the waterfall, AGM is only entitled to receive funds that would otherwise have been distributed to the holders of the classes that AGM insures, and that AGM receive such funds at the respective steps in the waterfall that immediately follow the steps at which such certificate holders would otherwise have received such funds. The court further ordered AGM to repay to the MARM 2006-OA2 trust the approximately $7.2 million that had been credited to it by Wells Fargo. After its ruling, the court referred the matter to the assigned magistrate judge for a recommendation as to the terms of the judgment, and the magistrate issued a report and recommendation on November 3, 2011. AGM intends to appeal the judgment once entered, and to request that the judgment be stayed pending the appeal. AGM estimates that as a result of this adverse decision (if and to the extent that the

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

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adverse decision is not modified), total unreimbursed claims paid by AGM could be up to approximately $144 million (on a gross discounted basis, without taking into account the benefit of representation and warranty recoveries, and exclusive of the repayment of the $7.2 million credit), over the life of the transaction.

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

The Company has net exposure to Jefferson County, Alabama of $731.8 million. On November 9, 2011, Jefferson County filed for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Alabama (Southern Division).

Most of the Company s exposure relates to $495.8 million of warrants issued by Jefferson County in respect of its sewer system, of which $135.2 million is derived from insurance policies issued by AGM and $360.6 million is derived from reinsurance provided by AG Re or AGC. Jefferson County s sewer revenue warrants are secured by a pledge of the net revenues of the sewer system, which should qualify as special revenue under Chapter 9. Therefore, the Company believes that during Jefferson County s Chapter 9 case, the net revenues of the sewer system should not be subject to an automatic stay and should continue to be applied to the payment of debt service on the sewer revenue warrants after the payment of sewer system operating expenses. The Company has projected expected loss to be paid of $18.0 million as of September 30, 2011 on the sewer revenue warrants, which estimate is based on a number of probability-weighted scenarios.

The Company s remaining net exposure of $236.0 million relates to bonds issued by Jefferson County that are secured by, or payable from, certain revenues, taxes or lease payments that may have the benefit of a statutory lien or a lien on special revenues or other collateral. AGM has issued insurance policies in respect of $164.1 million of this exposure and AG Re has provided reinsurance on the other $71.9 million. The Company projects less than $1 million of expected loss to be paid as of September 30, 2011 on these bonds.

The Company expects that bondholder rights will be enforced. However, due to the early stage of the bankruptcy proceeding, and the circumstances surrounding Jefferson County s debt, the nature of the action is uncertain. The Company will continue to analyze developments in the matter closely.

2006 Credit Facility

The 2006 Credit Facility expired on November 7, 2011. The Company has determined it has sufficient liquidity and decided not to enter into a new revolving credit facility at this time.

2009 Strip Coverage Facility

Under the Strip Coverage Facility, AGM covenants to deliver GAAP-compliant quarterly financial statements for itself and its consolidated subsidiaries within 60 days after the end of each fiscal quarter or 115 days after the end of the fiscal year. Neither the failure to deliver financial statements on time nor the failure to deliver GAAP-compliant financials is an event of default, but would be a covenant breach that, until cured, would prevent AGM from borrowing under the Strip Coverage Facility. In addition, the failure to deliver financial statements that present fairly the financial condition of AGM and its consolidated subsidiaries is a breach of representation and warranty that would prevent AGM from borrowing under the Strip Coverage Facility. However, if such financial statements are restated so as to make them present fairly the financial condition of AGM and its consolidated subsidiaries and AGM delivers such restated financial statements to Dexia, then AGM could resume borrowing. The Company anticipates that AGM would be able to borrow again by December 2011 and does not anticipate that AGM would have any need to borrow under the Strip Coverage Facility prior to that time.

Dexia

On June 30, 2009, the States of Belgium and France (the States) issued a guaranty to FSA Asset Management LLC (FSAM) pursuant to which the States guarantee, severally but not jointly, Dexia s payment obligations under the Guaranteed Put Contract, subject to certain limitations set forth therein. The FSAM assets referenced in the Guaranteed Put Contract were all sold by October 2011 as part of an asset divestment program that Dexia announced in May 2011. As a result, the guaranty of the States has effectively terminated.

The Financial Products Companies obligations are currently, and at all times in the future required to be, supported by eligible assets in an amount sufficient to allow the Financial Products Companies to meet their obligations. On September 29, 2011, the transaction documents required an analysis of the value of FSAM assets versus the GIC obligations and other associated liabilities of the Financial Products Companies. On that day, the required amount of assets exceeded the liabilities, and therefore Dexia was not required to post additional collateral to support its protection arrangements. Assured Guaranty believes the assets owned by the Financial Products Companies are sufficient for them to meet their GIC obligations and other associated liabilities. However, Dexia is required to post additional collateral if there is any shortfall in assets as compared with liabilities in the future.

Greek Sovereign Debt

As of September 30, 2011, the Company had exposure to sovereign debt of Greece through financial guarantees of 200.0 million of debt (165.1 million on a net basis) due in 2037 with a 4.5% fixed coupon and 113.5 million of debt (52.4 million on a net basis) due in 2057 with a 2.085% inflation-linked coupon. The Hellenic Republic of Greece, as obligor, has been paying interest on such notes on a timely basis. On October 26, 2011, officials from the European Commission announced a set of Greek debt relief measures that call for

Assured Guaranty Ltd.

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voluntary reductions of 50% of the notional amount of Greek sovereign debt held by banks and other private creditors. Based on preliminary reports that the proposal is voluntary and not binding on all bondholders, the Company does not believe the proposal should trigger claim payments under its financial guarantees, each of which had been issued in a bilateral transaction to an entity holding a portion of the debt. The Company will evaluate the impact of these measures as details become available.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q/A contains information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give the expectations or forecasts of future events of Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty or the Company). These statements can be identified by the fact that they do not relate strictly to historical or current facts and relate to future operating or financial performance.

Any or all of Assured Guaranty s forward-looking statements herein are based on current expectations and the current economic environment and may turn out to be incorrect. Assured Guaranty s actual results may vary materially. Among factors that could cause actual results to differ materially are:

- rating agency action, including a ratings downgrade, a change in outlook, the placement of ratings on watch for downgrade, or a change in rating criteria, at any time, of AGL or any of its subsidiaries and/or of transactions that AGL s subsidiaries have insured, all of which have occurred in the past;

- developments in the world s financial and capital markets that adversely affect issuers payment rates, the Company s loss experience, its ability to cede exposure to reinsurers, its access to capital, its unrealized (losses) gains on derivative financial instruments or its investment returns;

- changes in the world s credit markets, segments thereof or general economic conditions;

- more severe or frequent losses implicating the adequacy of the Company s expected loss estimates;

- the impact of market volatility on the mark-to-market of the Company s contracts written in credit default swap (CDS) form;

- reduction in the amount of insurance and reinsurance opportunities available to the Company;

- deterioration in the financial condition of our reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to us under our reinsurance agreements;

- the possibility that the Company will not realize insurance loss recoveries or damages from originators, sellers, sponsors, underwriters or servicers of residential mortgage-backed securities transactions;

- increased competition;

- changes in applicable accounting policies or practices;

- changes in applicable laws or regulations, including insurance and tax laws;

- other governmental actions;

- difficulties with the execution of the Company s business strategy;

- contract cancellations;

- the Company s dependence on customers;

- loss of key personnel;

- adverse technological developments;

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- the effects of mergers, acquisitions and divestitures;
- natural or man-made catastrophes;
- other risks and uncertainties that have not been identified at this time;
- management s response to these factors; and
- other risk factors identified in the Company s filings with the U.S. Securities and Exchange Commission (the SEC).

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 Quarterly Report. The Company undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law. Investors are advised, however, to consult any further disclosures the Company makes on related subjects in the Company s periodic reports filed with the SEC.

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

For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Convention

Unless otherwise noted, ratings disclosed in this Management s Discussion and Analysis of Assured Guaranty s insured portfolio reflect internal ratings. Although Assured Guaranty s rating scale is similar to that used by the nationally recognized statistical rating organizations, the ratings may not be the same as ratings assigned by any such rating agency. The super senior category, which is not generally used by rating agencies, is used by Assured Guaranty in instances where its AAA-rated exposure has additional credit enhancement due to either (1) the existence of another security rated AAA that is subordinated to Assured Guaranty s exposure or (2) Assured Guaranty s exposure benefitting from a different form of credit enhancement that would pay any claims first in the event that any of the exposures incurs a loss, and such credit enhancement, in management s opinion, causes Assured Guaranty s attachment point to be materially above the AAA attachment point.

Website Information

The Company routinely posts important information for investors on its website (www.assuredguaranty.com), under the Investor Information (particularly under the By Company, Assured Guaranty Ltd. tabs) and Press Room tabs. The Company uses this website as a means of disclosing material, non-public information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Investor Information and Press Room portions of the Company s website, in addition to following the Company s press releases, SEC filings, public conference calls, presentations and webcasts. The information contained on, or that may be accessed through, the Company s website is not incorporated by reference into, and is not a part of, this Quarterly Report.

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Executive Summary

This executive summary of management s discussion and analysis highlights selected information and may not contain all of the information that is important to readers of the Quarterly Report. For a complete description of events, trends and uncertainties, as well as the capital, liquidity, credit, operational and market risks and the critical accounting policies and estimates affecting the Company, the Original Form 10-Q and this Form 10-Q/A should be read together in their entirety. Financial information in Management s Discussion and Analysis has been restated as described in Note 2 of Item 1. Financial Statements. The restatement related primarily to the correction of errors in the elimination of intercompany transactions between the Company s insurance subsidiaries and the consolidated financial guaranty variable interest entities (FG VIEs). The total effect of this restatement was a decrease to equity of $36.1 million and $65.3 million as of June 30, 2011 and December 31, 2010, respectively, an increase to net income of $15.1 million and $30.3 million for the three months and six months ended June 30, 2011, respectively, and a decrease to net income of $24.4 million and $12.9 million for the three months and six months ended June 30, 2010, respectively, from amounts previously reported in the Original Form 10-Q.

Business Overview

Assured Guaranty provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and international public finance, infrastructure and structured finance markets. The Company has applied its credit underwriting judgment, risk management skills and capital markets experience to develop insurance, reinsurance and credit derivative products that protect holders of debt instruments and other monetary obligations from defaults in scheduled payments, including scheduled interest and principal payments. Financial guaranty contracts written in insurance form provide an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Financial guaranty contracts written in credit derivative form (typically CDS) are generally structured such that the circumstances giving rise to the Company s obligation to make loss payments are similar to those for financial guaranty contracts accounted for as insurance and only occurs upon one or more defined credit events with respect to one or more third party referenced securities or loans.

Public finance obligations insured or assumed through reinsurance by the Company consist primarily of general obligation bonds supported by the issuers taxing powers, tax-supported bonds and revenue bonds and other obligations of states, their political subdivisions and other municipal issuers supported by the issuers or obligors covenant to impose and collect fees and charges for public services or specific projects. Public finance obligations include obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including government office buildings, toll roads, health care facilities and utilities.

Structured finance obligations insured or assumed through reinsurance by the Company are backed by pools of assets such as residential mortgage loans, consumer or trade receivables, securities or other assets having an ascertainable cash flow or market value and issued by special purpose entities. The Company currently does not underwrite U.S. residential mortgage-backed securities (RMBS).

Debt obligations guaranteed by the Company s insurance subsidiaries are generally awarded ratings that are the same rating as the financial strength rating of the Assured Guaranty subsidiary that has guaranteed that obligation. Investors in products insured by Assured Guaranty Municipal Corp. (AGM) or Assured Guaranty Corp. (AGC) frequently rely on rating agency ratings. Therefore, low financial strength ratings or uncertainty over AGM s or AGC s abilities to maintain their financial strength ratings would have a negative impact on the demand for their insurance product.

As of August 9, 2011, AGM and AGC and their respective insurance-company subsidiaries had financial strength ratings of Aa3 (negative outlook) by Moody s Investors Service, Inc. (Moody s) and AA+ (negative outlook) by Standard and Poor s Ratings Services (S&P). In connection with S&P s downgrade on August 5, 2011 of the long-term sovereign credit rating of the United States of America to AA+ (negative outlook), on August 8, 2011, S&P affirmed the rating of AGL and the financial strength ratings of AGM and AGC and their respective insurance company subsidiaries, and revised the outlooks of those entities from stable to negative. S&P noted in its Research Update that the rating action did not reflect a change in S&P s view of Assured Guaranty s fundamental credit characteristics, but rather was a result of the application of its criteria that the sovereign local-currency credit

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rating constrains its financial strength ratings on insurers whose businesses and assets are highly concentrated in the U.S. and which have significant holdings in U.S. Treasury and agency securities.

A downgrade by Moody s or S&P of the financial strength ratings of the Company s insurance subsidiaries may have a negative impact on the Company s liquidity. A downgrade may trigger (1) increased claims on some of the Company s insurance policies, in certain cases, on a more accelerated basis than when the original transaction closed; or (2) termination payments or collateral posting under CDS contracts. A downgrade in the financial strength ratings may also enable beneficiaries of the Company s policies to cancel the credit protection offered by the Company and cease paying premium. A downgrade may also enable primary insurance companies that had ceded business to the Company to recapture a significant portion of its in-force financial guaranty reinsurance business.

In 2011, the Company is focusing on three principal areas that are critical to Assured Guaranty s future growth and business potential. Those areas are:

- S&P s proposal to change its bond insurance rating criteria.
- Loss mitigation, including the pursuit of recoveries for breaches of representations and warranties and efforts to improve servicing.
- New business development.

Standard and Poor s Ratings Services Bond Insurer Criteria

On September 27, 2011, S&P published a Research Update in which it placed its ratings of Assured Guaranty on CreditWatch Negative. This action included changing the financial strength ratings of AGC and AGM from AA+ (Negative Outlook) to AA+ (CreditWatch Negative), and the AA (Negative Outlook) rating of Assured Guaranty Re Ltd. (AG Re) to AA (CreditWatch Negative), signifying that S&P may downgrade such financial strength ratings in the near future. In the Research Update, S&P stated that the CreditWatch placement is due to significant concentration risk in Assured Guaranty s consolidated insured portfolio; the portfolio contains exposures that are not consistent with S&P s new bond insurance rating criteria and breach the largest obligor test in such new criteria. The largest obligor test appears to have the effect of significantly reducing Assured Guaranty s allowed single risk limits and limiting its financial strength rating level. S&P published updated criteria in *Bond Insurance Rating Methodology and Assumptions* on August 25, 2011, subsequent to its publication of *Request for Comment: Bond Insurance Criteria* on January 24, 2011. According to S&P, based on statements from Assured Guaranty s management that Assured Guaranty intends to take action such as create capital or utilize additional forms of reinsurance to mitigate these concentration risks, it is likely such actions, if taken, would support financial strength ratings in the AA category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. The Company is considering transactions that are designed to create capital and/or mitigate its concentration risks but can give no assurance that it will be able to complete the transactions at all or on terms that are acceptable. If it cannot do so, S&P may downgrade the financial strength ratings of AGL and its subsidiaries, including the financial strength ratings of AGC, AGM and AG Re, which downgrade may have an adverse impact on the Company s financial condition, results of operation, liquidity, business prospects or other aspects of the Company s business and on its insured portfolio. See Notes 5, 7 and 12 of the Financial Statements for the potential impact of a financial strength rating downgrade on the Company and on the insured portfolio. Since S&P s January 2011 announcement that it planned to change its rating criteria, the Company has been pursuing strategies to improve its rating agency capital position. Such strategies include:

- Negotiating comprehensive agreements with representations and warranties (R&W) providers, such as the Bank of America Agreement consummated on April 14, 2011. See Recoveries for Breaches of R&W below.

- Agreeing to terminate contracts under which the Company sells credit protection. Through June 30, 2011, the Company agreed to terminate CDS with net par of $7.7 billion, resulting in net gains of $15.5 million in the three-month period ended March 31, 2011 (First Quarter 2011) and $16.4 million in losses in the three-month period ended June 30, 2011 (Second Quarter 2011).

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- Commuting reinsurance contracts. In 2011, the Company cancelled an assumed reinsurance contract for a gain of $8.1 million and cancelled a ceded reinsurance contract for a gain of $24.1 million. In 2010, the Company reassumed previously ceded business resulting in gains of $16.7 million.

- Purchasing securities insured by the Company. In 2011, the Company purchased additional insured securities bringing the June 30, 2011 carrying value of assets purchased for loss mitigation purposes to $244.3 million, with a par of $1,029.3 million.

Recoveries for Breaches of R&W

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

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

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

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

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

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

The Company believes the Bank of America Agreement was a significant step in the effort to recover U.S. RMBS losses the Company experienced resulting from breaches of R&W. The Company is continuing to pursue other representation and warranty providers for U.S. RMBS transactions it has insured.

New Business Development

Management believes that the Company is able to provide value not only by insuring the timely payment of scheduled interest and principal amounts when due, but also through its underwriting skills and surveillance capabilities, particularly with regard to the U.S. public finance market. Few individual or even institutional investors have the analytic resources to cover all the varied municipal credits in that market, which are estimated to number more than 30,000. Through its financial guaranty, the Company undertakes the tasks of credit selection, analysis, negotiation of terms, monitoring and, if necessary, remediation. Management believes this allows retail investors to participate more widely, institutional investors to operate more efficiently and smaller, less well-known issuers to gain market access on a more cost-effective basis. In fact, in Second Quarter 2011, based on par, the Company insured approximately 15% of new U.S. municipal issues that were $25 million or less in size across all rating categories.

Economic Environment

Early-stage mortgage delinquencies have slowly improved in 2011, but severities on first lien transactions have increased. New issuance in the U.S. and international public finance sectors has not returned to historic levels, and the market for financial guaranty insurance has been hampered by ratings actions and municipal rating recalibrations, as well as reduced new issuance volume. In particular, in the U.S. public finance market, new issue volume for the first half of 2011 was only $115.0 billion, down 44% from the same period in 2010. The factors contributing to this decline include:

- Strong volume in December 2010, as issuers seeking to take advantage of the expiring Build America Bonds program issued $15.4 billion of new bonds.

- Reduction in capital spending due to municipal budget constraints, resulting in less need for increased debt.

- Reluctance to increase taxes to service principal and interest costs under new debt.

Financial Performance

The table below presents selected financial data in accordance with accounting principles generally accepted in the United States of America (GAAP).

Reported Financial Results

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(dollars in millions, except per share amounts)			
	(restated)	(restated)	(restated)	(restated)
Net earned premiums	$ 230.0	$ 297.0	$ 484.0	$ 611.7
Net investment income	101.1	90.9	197.2	175.2
Realized gains and other settlements on credit derivatives	(10.8)	38.4	24.6	65.1
Net unrealized gains (losses) on credit derivatives	(54.0)	35.1	(325.6)	287.2
Net change in fair value of financial guaranty variable interest entities	(174.3)	(27.4)	(54.7)	(36.3)
Loss and loss adjustment expenses	(123.9)	(85.7)	(98.4)	(196.6)
Other operating expenses	(48.5)	(47.4)	(105.3)	(110.0)
Net income (loss)	(42.6)	179.1	98.0	512.6
Diluted earnings per share	(0.23)	0.95	0.52	2.70

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Second Quarter 2011 net loss was driven primarily by fair value losses on credit derivatives FG VIEs. Fair value losses on credit derivatives resulted primarily from the narrowing of AGC and AGM credit spreads. Fair value losses on FG VIEs resulted primarily from losses on consolidation of eight new VIEs of $95.3 million, pretax, and declines in fair value of the underlying collateral on two consolidated VIEs. Second Quarter 2011 also includes a gain on commutation of a financial guaranty assumed reinsurance contract of $8.1 million, pretax, as the Company actively seeks to reduce exposure to BIG monolines. Net investment income increased due to the shift towards longer duration assets and increased invested assets largely due to cash received under the Bank of America Agreement in Second Quarter 2011. As expected, net earned premiums and credit derivative fees in Second Quarter 2011 declined compared with the three-months period ended June 30, 2010 (Second Quarter 2010) as the structured in-force book of business declines. Loss and loss adjustment expenses (LAE) increased compared with Second Quarter 2010 and was higher than expected due primarily to the decline in the risk-free rates used to discount cash flows in the loss models.

For the six-month period ended June 30, 2011 (Six Months 2011), net income also includes fair value losses on credit derivatives and FG VIEs. In addition to the effect of AGC and AGM credit spread narrowing since year end 2010, Six Month 2011 also includes fair value losses due to a refinement in assumptions in the First Quarter 2011. Six Months 2011 commutation gains on financial guaranty insurance contracts accounted for as insurance amounted to $32.2 million, compared with $16.7 million for the six-month period ended June 30, 2010 (Six Months 2010). Changes in net investment income and net earned premiums between Six Months 2011 and 2010 are caused by the same factors described above for Second Quarter 2011. Loss and LAE for Six Months 2011 benefited significantly from increased R&W estimates as a result of the Bank of America Agreement. Approximately $308 million in pretax income was generated by the increase in estimated contractual R&W recoveries on transactions covered by the Bank of America Agreement in Six Months 2011.

In addition to GAAP measures, the Company evaluates several non-GAAP financial measures. See Non-GAAP Financial Measures for a description and reconciliation to the most comparable GAAP measures. The most significant differences between GAAP reported net income and non-GAAP operating income are the removal of unrealized gains and losses related to credit derivatives that are not indicative of economic loss, and reversing the effects of consolidating FG VIEs.

Operating income was $143.9 million in Second Quarter 2011 compared with $171.8 million in Second Quarter 2010, a decline of 16.2%. The effect of the restatement on operating income was a $7.6 million increase for Second Quarter 2011 and a $0.2 million decrease for Second Quarter 2010. Operating income does not include fair value gains and losses on credit derivatives and FG VIEs which are not indicative of economic loss, and other items as described in Non-GAAP Financial Measures. The primary components of operating income are premiums, credit derivative revenues, net investment income, loss expense, and operating and interest expenses, in addition to any transactional gains and loss such as R&W agreements, commutations and terminations.

Operating income declined from Second Quarter 2010 to Second Quarter 2011 due primarily to the decline in scheduled net earned premiums, which is consistent with expectations previously disclosed, and higher total loss expense from insurance and credit derivative losses. Losses were higher than previously expected due primarily to loss development caused by the decline in risk-free rates used to discount cash flows in the RMBS loss models for longer-dated transactions such as closed-end second liens. Commutations of financial guaranty reinsurance contracts and CDS terminations contributed $14.4 million in losses in Second Quarter 2011 compared with $2.2 million in gains in Second Quarter 2010.

Operating income for Six Months 2011 was $392.6 million, 35.9% higher than Six Months 2010 operating income of $288.8 million. The effect of the restatement on operating income was a $7.4 million increase for Six Months 2011 and a $4.2 million increase for Six Months 2010. The primary driver of the increase in operating

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income on a year to date basis is the increased benefit for R&W as a result of the Bank of America Agreement of approximately $308 million in pretax income.

New Business Production

	Second Quarter 2011	Second Quarter 2010	Change	Six Months 2011	Six Months 2010	Change
			(dollars in millions)			
Present Value of New Business Production (PVP)						
Public Finance U.S.						
Primary Markets	$ 36.0	$ 72.7	$ (36.7)	$ 62.7	$ 133.1	$ (70.4)
Secondary Markets	8.8	8.7	0.1	16.1	22.6	(6.5)
Public Finance non-U.S.						
Primary Markets						
Secondary Markets		0.7	(0.7)		0.7	(0.7)
Structured Finance U.S.	7.1	5.7	1.4	18.4	10.2	8.2
Structured Finance non-U.S.		2.1	(2.1)	7.2	2.1	5.1
Total PVP	$ 51.9	$ 89.9	$ (38.0)	$ 104.4	$ 168.7	$ (64.3)
Gross Par Written	$ 4,373	$ 8,261	$ (3,888)	$ 6,692	$ 15,449	$ (8,757)

PVP represents the present value of estimated future earnings primarily on new financial guaranty contracts written in the period, before consideration of cessions to reinsurers. During Second Quarter 2011, PVP decreased 42.3% to $51.9 million, largely as a result of the 31.8% reduction in the new issue market for U.S. municipal bonds in Second Quarter 2011 compared with Second Quarter 2010 and ratings uncertainty caused by S&P s proposed changes to bond insurer rating criteria. The total par insured by the Company declined by 47.1% in Second Quarter 2011 compared with Second Quarter 2010. Although, PVP for U.S. Public Finance was higher in Second Quarter 2011 than First Quarter 2011 by 34.8%.

During Six Months 2011, PVP decreased 38.1% to $104.4 million, largely as a result of the 44% reduction in the new issue market for U.S. municipal bonds in Six Months 2011 compared with Six Months 2010. The total par insured by the Company declined in Six Months 2011 to the comparable amount in Six Months 2010 by 56.7%.

The Company insured 12.1% of new issue transactions and 6.0% of new-issue par sold in the U.S. public finance market during Second Quarter 2011, compared with 12.9% of new-issue transactions and 7.0% of new-issue par during Second Quarter 2010. While new issuances in the U.S. municipal market declined in Six Months 2011 compared with Six Months 2010 as municipalities reduced borrowing due to issuers general reluctance in the current environment to incur additional debt, Assured Guaranty s market penetration remained relatively stable. The new issue U.S. public finance par penetration rate for the Six Months 2011 declined from 6.7% in Six Months 2010 to 5.6% due to potential ratings criteria changes from S&P. The following table presents additional detail with respect to the Company s penetration into the U.S. public finance market.

Municipal Market Data

	Six Months 2011		Year Ended December 31, 2010		2009	
	Par	Number of issues	Par	Number of issues	Par	Number of issues
	(dollars in billions, except number of issues)					
New municipal bonds issued	$ 115.0	4,670	$ 430.8	13,594	$ 406.8	11,412
Insured by all financial guarantors	6.4	542	26.8	1,697	35.4	2,012
Insured by AGC and AGM	6.4	541	26.8	1,697	34.8	2,005
Issued under BABs program			117.3	1,567	64.2	784
Insured under BABs program by AGC and AGM			4.7	153	1.7	87

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Results of Operations

Estimates and Assumptions

The Company s consolidated financial statements include amounts that are determined using estimates and assumptions. The actual amounts realized could ultimately be materially different from the amounts currently provided for in the Company s consolidated financial statements. Management believes the most significant items requiring inherently subjective and complex estimates to be expected losses, including assumptions for breaches of R&W, fair value estimates, other-than-temporary impairment (OTTI), deferred income taxes, and premium revenue recognition.

An understanding of the Company s accounting policies for these items is of critical importance to understanding its consolidated financial statements. See Part II, Item 8 Financial Statements and Supplementary Data of the Company s Annual Report on Form 10-K/A for a discussion of significant accounting policies and fair value methodologies. The following discussion of the results of operations includes information regarding the estimates and assumptions used for these items and should be read in conjunction with the notes to the Company s consolidated financial statements.

Change in Accounting Policy

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

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Consolidated Results of Operations

Consolidated Results of Operations

	Second Quarter 2011	Second Quarter 2010	Six Months 2011	Six Months 2010
	(in millions)			
	(restated)	(restated)	(restated)	(restated)
Revenues:				
Net earned premiums	$ 230.0	$ 297.0	$ 484.0	$ 611.7
Net investment income	101.1	90.9	197.2	175.2
Net realized investment gains (losses)	(5.1)	(8.4)	(2.3)	1.0
Net change in fair value of credit derivatives:				
Realized gains and other settlements	(10.8)	38.4	24.6	65.1
Net unrealized gains	(54.0)	35.1	(325.6)	287.2
Net change in fair value of credit derivatives	(64.8)	73.5	(301.0)	352.3
Fair value gain (loss) on committed capital securities	0.6	12.6	1.1	11.3
Net change in fair value of financial guaranty VIEs	(174.3)	(27.4)	(54.7)	(36.3)
Other income	28.8	(13.5)	71.0	(26.4)
Total revenues	116.3	424.7	395.3	1,088.8
Expenses:				
Loss and LAE	123.9	85.7	98.4	196.6
Amortization of deferred acquisition costs	9.5	6.9	16.9	15.1
Assured Guaranty Municipal Holdings Inc. acquisition-related expenses		2.8		6.8
Interest expense	24.7	24.9	49.5	50.0
Other operating expenses	48.5	47.4	105.3	110.0
Total expenses	206.6	167.7	270.1	378.5
Income (loss) before provision for income taxes	(90.3)	257.0	125.2	710.3
Provision (benefit) for income taxes	(47.7)	77.9	27.2	197.7
Net income (loss)	$ (42.6)	$ 179.1	$ 98.0	$ 512.6

Net Earned Premiums

Net Earned Premiums

	Second Quarter 2011	Second Quarter 2010	Six Months 2011	Six Months 2010
	(in millions)			
		(restated)		
Financial guaranty:				
Public finance				
Scheduled net earned premiums	$ 91.4	$ 96.5	$ 182.6	$ 185.3
Acceleration of premium earnings(1)	21.0	15.5	50.6	31.8
Total public finance	112.4	112.0	233.2	217.1
Structured finance				

Scheduled net earned premiums and accretion(2)		117.1		184.4		249.8		394.3
Acceleration of premium earnings(1)				(0.1)				(1.0)
Total structured finance		117.1		184.3		249.8		393.3
Other		0.5		0.7		1.0		1.3
Total net earned premiums	$	230.0	$	297.0	$	484.0	$	611.7

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(1) Reflects the unscheduled refunding or early termination of underlying insured obligations.

(2) Excludes $18.3 million and $10.7 million in Second Quarter 2011 and 2010, respectively and $37.4 million and $21.6 million for Six Months 2011 and 2010, respectively, related to consolidated FGVIEs.

Net earned premiums decreased in Second Quarter 2011 and Six Months 2011 from the amount in Second Quarter 2010 and Six Months 2010, primarily due to the decline in structured finance scheduled net earned premium as the par outstanding declines. Second Quarter 2011 scheduled net earned premiums were consistent with expected amounts.

At June 30, 2011, $5.6 billion of net deferred premium revenue remained to be earned over the life of the insurance contracts. Due to the runoff of deferred premium revenue, which includes acquisition accounting adjustments, net earned premiums are expected to decrease each year unless replaced by new business.

Net earned premiums exclude the net earned premium related to consolidated FG VIEs. The consolidated FG VIEs are entities that are established and used in insured structured financings for which the Company is deemed to have a controlling financial interest, as defined by GAAP, due to its ability to terminate and replace the transaction s servicer.

Net Investment Income

Investment income is a function of the yield that the Company earns on invested 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 the invested assets.

Net investment income increased due to a shift to longer duration assets, higher income on securities that were purchased for loss mitigation purposes, and additional earnings on the cash received under the Bank of America Agreement. The amortized cost of fixed maturities and short-term investments averaged $10.8 billion with a duration of 4.9 years in Second Quarter 2011 compared with $10.3 billion and 4.3 years, respectively, for Second Quarter 2010. The pre-tax book yield was 3.74% at June 30, 2011 and 3.50% at June 30, 2010, respectively.

Net Realized Investment Gains (Losses)

The table below presents the components of net realized investment gains (losses). OTTI included below was primarily attributable to mortgage-backed securities that were acquired for loss mitigation purposes and municipal securities where we have the intent to sell. OTTI amounts reported in the statements of operations represent the credit component of the change in fair value of OTTI securities and the entire unrealized loss related to securities the Company intends to sell.

Net Realized Investment Gains (Losses)

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
Realized investment gains (losses) on sales of investments	$ 6.5	$ 8.9	$ 13.9	$ 18.8
OTTI:				
Intent to sell	(0.8)	(1.3)	(3.5)	(1.7)
Credit losses on securities(1)	(10.8)	(16.0)	(12.7)	(16.1)
OTTI	(11.6)	(17.3)	(16.2)	(17.8)
Net realized investment gains (losses)	$ (5.1)	$ (8.4)	$ (2.3)	$ 1.0

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(1) Includes OTTI on bonds purchased for loss mitigation purposes or obtained in settlements of insured transactions.

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Other Income

The following table details the components of other income.

Other Income

	Second Quarter		Six Months	
	2011	**2010**	**2011**	**2010**
		(in millions)		
Foreign exchange gain (loss) on revaluation of premium receivable	$ 5.8	$ (24.2)	$ 18.7	$ (55.3)
Commutation gains	8.1	2.2	32.2	16.7
R&W settlement benefit	10.3		10.3	
Other	4.6	8.5	9.8	12.2
Total other income	$ 28.8	$ (13.5)	$ 71.0	$ (26.4)

The R&W settlement benefit recorded in other income in Second Quarter 2011 represents one transaction where the Company recovered more than its expected lifetime losses due to a negotiated agreement with the counterparty of this insured transaction. Such excess may not be recorded as an offset to loss and LAE under GAAP.

Other Operating Expenses

Compensation is a primary component of other operating expenses and varies primarily based on headcount and performance-driven long-term incentive compensation. Other operating expenses increased in Second Quarter 2011 due primarily to lower deferral rates for policy acquisition costs offset in part by declines in gross compensation expense. Deferral rates in Second Quarter 2011 and 2010 were 15.8% and 24.8%, respectively. Other operating expenses in Six Months 2011 decreased primarily due to declines in compensation expense offset in part by lower deferral rates for policy acquisition costs. Deferral rates in Six Months 2011 and 2010 were 15.9% and 19.8%, respectively.

Losses in the insured portfolio

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company s control rights. The following provides a very summarized description of the three accounting models; however, please refer to Notes 5, 7 and 8 of the Financial Statements included in this Form 10-Q/A, and in the corresponding Notes to the December 31, 2010 consolidated financial statements in the Company s Form 10-K/A, for a full description of the three accounting models: financial guaranty insurance, credit derivatives and consolidated variable interest entities. For credit derivatives, please also refer to Note 6, Fair Value Measurement, of the Financial Statements.

- For contracts accounted for as financial guaranty insurance, loss and LAE reserve is generally recorded only to the extent and for the amount that expected losses to be paid (calculated on a present value probability weighted basis) exceed deferred premium revenue. As a result, the Company has expected losses to be expensed in future periods, which represents past or future claim payments that have not yet been expensed. Expected loss to be paid is important from a liquidity perspective in that it provides information on how much the Company expects to pay or recover in future periods. Expected loss to be expensed is important because it presents the Company s projections of losses that will be recognized in future periods as deferred premium revenue amortizes into income on financial guaranty insurance policies with credit deterioration. Both of these measures are discussed below.

- For contracts accounted for as credit derivatives, the Company records the fair value of these contracts on the consolidated balance sheet with changes in fair value recorded in the consolidated statement of operations. In periods prior to 2009, when the Company was actively writing credit derivatives, they were considered an extension of the financial guaranty insurance business. The Company s credit derivatives are not actively traded as are credit derivatives in other financial services industries. Management expects the fair value gains and losses to reverse to zero as the contract approaches maturity, except for economic claim payments. See *Net change in fair value of credit derivatives*. Expected loss to be paid is considered in the fair value of each contract and is an important measure for management to analyze the net economic loss on credit derivatives. The fair value recorded on the balance sheet represents a hypothetical exit price determined using significant Level 3 inputs in an internally developed model while the expected loss to be paid uses methodologies and assumptions consistent with financial guaranty insurance expected losses to be paid.

- For consolidated FG VIEs used in structured finance financial guaranty insurance transactions, where the Company is deemed, under GAAP, to have a controlling financial interest, expected loss to be paid is reflected in the fair value of the FG VIEs assets and liabilities. The Company carries all the assets and liabilities of the FG VIEs at fair value under the fair value option election. Management assesses credit impairment on structured finance transactions using consolidated FG VIEs in the same manner as other financial guaranty insurance or credit derivative contracts. The fair value of FG VIEs recorded on the balance sheet reflects additional factors other than expected loss such as changes in market spreads. These contracts are not actively traded and therefore management expects the fair value gains and losses to reverse to zero as the contract approaches maturity, except for economic claim payments. Expected loss to be paid for FG VIEs pursuant to AGC s and AGM s financial guaranty policies is calculated in a manner consistent with financial guaranty insurance contracts.

In order to effectively manage the economics of the entire insured portfolio, management compiles and analyzes loss information for all policies on a consistent basis. That is, management monitors and assigns ratings and calculates expected losses in the same manner for all its exposures regardless of form or differing accounting models to ensure that assumptions and models are consistently applied. Management also considers contract specific characteristics that affect the estimates of expected loss.

Risk Management and Surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, and Surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Surveillance personnel present analyses related to potential losses to the loss reserve committees for consideration in estimating the expected loss. Such analyses include the consideration of various scenarios with potential probabilities assigned to them. Depending upon the nature of the risk, the Company s view of the potential size of any loss and the information available, that analysis may be based upon individually developed cash flow models, internal credit rating assessments and sector-driven loss severity assumptions, judgmental assessment or, in the case of its assumed business, loss estimates provided by ceding insurers. The loss reserve committees review and refresh the expected loss estimates each quarter. The Company s estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the insured transaction due to the potential for significant variability in credit performance due to changing economic, fiscal and financial market variability over the long duration of most contracts. The determination of expected loss is an inherently subjective process involving numerous estimates, assumptions and judgments by management. The most significant losses have been generated by the U.S. RMBS sector.

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

The further behind a mortgage borrower falls in payments, the more likely it is that he or she will default. The rate at which borrowers from a particular delinquency category (number of monthly payments behind) eventually default is referred to as the liquidation rate. Liquidation rates may be derived from observed roll rates, which are the rates at which loans progress from one delinquency category to the next and eventually to default and

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liquidation. The Company applies liquidation rates to the mortgage loan collateral in each delinquency category and makes certain timing assumptions to project near-term mortgage collateral defaults from loans that are currently delinquent.

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how much of the currently performing loans will default, and when, by first converting the projected near-term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates, then projecting how the conditional default rates will develop over time. Loans that are defaulted pursuant to the conditional default rate after the liquidation of currently delinquent loans represent defaults of currently performing loans. A conditional default rate is the outstanding principal amount of loans defaulting in a given month divided by the remaining outstanding amount of the whole pool of loans (or collateral pool balance). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal repayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector based on experience to date. Further detail regarding the assumptions and variables the Company used to project collateral losses in its U.S. RMBS portfolio may be found in Note 5 of the Financial Statements.

The Company is in the process of enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools. The Company calculates a credit to the RMBS issuer for such recoveries where the R&W were provided by an entity the Company believes to be financially viable and where the Company already has access or believes it will attain access to the underlying mortgage loan files. The credit for R&W as of June 30, 2011 also includes contractual recoveries of $171.9 million that Bank of America is obligated to pay on second lien transactions by March 31, 2012, as well as 80% of expected losses to be paid on Bank of America first lien transactions. For non-Bank of America transactions, this credit is based on either a factor of actual repurchase rates achieved, or it is estimated by reducing collateral losses projected by the Company to reflect a factor of the recoveries the Company believes it will achieve, which factor is derived based on the number of breaches identified to date and incorporated scenarios based on the amounts the Company was able to negotiate under the Bank of America Agreement. The first lien approach is different from the second lien approach because the Company s first lien transactions have multiple tranches and a more complicated method is required to correctly allocate credit to each tranche. In each case, the credit is a function of the projected lifetime collateral losses in the collateral pool, so an increase in projected collateral losses increases the R&W credit calculated by the Company for the RMBS issuer. Further detail regarding how the Company calculates these credits may be found under *Breaches of Representations and Warranties* in Note 5 of the Financial Statements.

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

For student loans, expected losses are primarily due to (i) the poor credit performance of private student loan collateral; (ii) high interest rates on securities with respect to the auctions that have failed or (iii) high interest rates on variable rate demand obligations that have been put to the liquidity provider by the holder and are therefore bearing high bank bond interest rates.

XXX life insurance reserve securitization transactions are based on discrete blocks of individual life insurance business. In these transactions the monies raised by the sale of the bonds insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The monies are

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invested at inception in accounts managed by third party investment managers. In order for the Company to incur an ultimate net loss on these transactions, adverse experience on the underlying block of life insurance policies and/or credit losses in the investment portfolio would need to exceed the level of credit enhancement built into the transaction structures. In particular, such credit losses in the investment portfolio could be realized in the event that circumstances arise resulting in the early liquidation of assets at a time when their market value is less than their intrinsic value. Expected loss on XXX life insurance reserve securitization transactions are based on an analysis of information currently available, including estimates of future investment performance provided by the current investment manager, and projected credit impairments on the invested assets and performance of the blocks of life insurance business.

In addition to the structured finance portfolio, the Company also has expected losses for certain transactions in the public finance sector which are discussed in Note 5 of the Financial Statements.

Expected loss to be paid consists primarily of the present value of future: expected claim payments, expected recoveries of excess spread in the transaction structures, cessions to reinsurers under quota share and excess of loss treaties, and expected recoveries for breaches of R&W and other loss mitigation strategies. Assumptions used in the determination of the expected loss to be paid presented below, such as delinquency, severity, and discount rates and expected timeframes to recovery in the mortgage market were consistent by sector regardless of the accounting model used.

Net Expected Loss to be Paid

	As of June 30, 2011 (in millions)				
	Financial Guaranty Insurance(1)	**Financial Guaranty VIEs**	**Financial Guaranty Insurance and VIEs(1)**	**Credit Derivatives(2)**	**Total**
US RMBS:					
First lien:					
Prime first lien	$ 3.2	$	$ 3.2	$	$ 3.2
Alt-A first lien	138.8	28.8	167.6	210.3	377.9
Option ARM	213.5	53.4	266.9	83.9	350.8
Subprime	110.7	50.8	161.5	133.0	294.5
Total first lien	466.2	133.0	599.2	427.2	1,026.4
Second Lien:					
Closed-end second lien	(69.1)	(25.6)	(94.7)	(4.3)	(99.0)
Home equity lines of credit (HELOCs)	74.7	(113.0)	(38.3)		(38.3)
Total second lien	5.6	(138.6)	(133.0)	(4.3)	(137.3)
Total U.S. RMBS	471.8	(5.6)	466.2	422.9	889.1
Trust preferred securities (TruPS)	4.7		4.7	78.0	82.7
Other structured finance	175.9		175.9	100.1	276.0
Public finance	66.2		66.2		66.2
Total	$ 718.6	$ (5.6)	$ 713.0	$ 601.0	$ 1,314.0

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	As of December 31, 2010				
	Financial Guaranty Insurance(1) (restated)	Financial Guaranty VIEs	Financial Guaranty Insurance and VIEs(1) (in millions) (restated)	Credit Derivatives(2)	Total (restated)
US RMBS:					
First lien:					
Prime first lien	$ 1.4	$	$ 1.4	$	$ 1.4
Alt-A first lien	195.7	(11.3)	184.4	215.4	399.8
Option ARM	524.2	(0.5)	523.7	105.1	628.8
Subprime	230.7	(30.3)	200.4	110.2	310.6
Total first lien	952.0	(42.1)	909.9	430.7	1,340.6
Second Lien:					
Closed-end second lien	52.8	3.8	56.6	30.9	87.5
HELOCs	(893.2)	87.5	(805.7)		(805.7)
Total second lien	(840.4)	91.3	(749.1)	30.9	(718.2)
Total U.S. RMBS	111.6	49.2	160.8	461.6	622.4
TruPS	(0.6)		(0.6)	90.9	90.3
Other structured finance	159.7		159.7	101.5	261.2
Public finance	88.9		88.9		88.9
Total	$ 359.6	$ 49.2	$ 408.8	$ 654.0	$ 1,062.8

(1) Refer to Note 5 of the Financial Statements for additional information related to the accounting for insurance contracts.

(2) Refer to Note 7 of the Financial Statements for additional information related to the accounting for credit derivative contracts.

The following table presents a roll forward of the expected loss to be paid for the quarter and year to date ended June 30, 2011 before and after consideration of R&W benefits. The amounts presented below do not represent amounts recorded as loss reserves in the consolidated financial statements because of the various accounting models required under GAAP, but instead represent the economic changes in loss estimates for the insured portfolio as a whole, which is how management analyzes the information. Expected losses to be paid are first calculated without consideration of the expected R&W benefit. Then, based on updated loss estimates, loan reviews, executed contractual agreements such as the Bank of America Agreement, and progress made on receiving commitments to put-back defective loans, the expected R&W benefit is updated, which reduces the net amount of expected loss to be paid. Amounts presented are net of cessions to third party reinsurers.

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Net Expected Loss to be Paid, Before Benefit for Recoveries of R&W

Roll Forward by Sector(1)

	Net Expected Loss to be Paid as of March 31, 2011 (restated)	Net Economic Loss Development(2) (restated)	Net (Paid) Recovered Losses	Net Expected Loss to be Paid as of June 30, 2011
		(in millions)		
U.S. RMBS:				
First lien:				
Prime first lien	$ 3.8	$ 2.3	$	$ 6.1
Alt-A first lien	677.0	13.7	(26.3)	664.4
Option ARM	1,041.2	152.3	(120.1)	1,073.4
Subprime	395.9	(16.4)	(3.5)	376.0
Total first lien	2,117.9	151.9	(149.9)	2,119.9
Second lien:				
Closed-end second lien	195.1	(34.8)	(19.5)	140.8
HELOCs	332.0	29.7	(89.6)	272.1
Total second lien	527.1	(5.1)	(109.1)	412.9
Total U.S. RMBS	2,645.0	146.8	(259.0)	2,532.8
TruPS	89.0	(3.9)	(2.4)	82.7
Other structured finance	271.4	5.4	(0.8)	276.0
Public finance	66.7	(0.3)	(0.2)	66.2
Total	$ 3,072.1	$ 148.0	$ (262.4)	$ 2,957.7

Net Expected Loss to be Paid, Before Benefit for Recoveries of R&W

Roll Forward by Sector(1)

	Net Expected Loss to be Paid as of December 31, 2010 (restated)	Net Economic Loss Development(2) (restated)	Net (Paid) Recovered Losses	Net Expected Loss to be Paid as of June 30, 2011
		(in millions)		
U.S. RMBS:				
First lien:				
Prime first lien	$ 2.5	$ 3.6	$	$ 6.1
Alt-A first lien	548.2	162.1	(45.9)	664.4
Option ARM	940.9	377.9	(245.4)	1,073.4
Subprime	337.4	51.3	(12.7)	376.0
Total first lien	1,829.0	594.9	(304.0)	2,119.9
Second lien:				
Closed-end second lien	265.7	(73.5)	(51.4)	140.8
HELOCs	198.4	261.8	(188.1)	272.1
Total second lien	464.1	188.3	(239.5)	412.9
Total U.S. RMBS	2,293.1	783.2	(543.5)	2,532.8
TruPS	90.3	(3.8)	(3.8)	82.7
Other structured finance	261.2	17.8	(3.0)	276.0

Public finance		88.9		(13.5)		(9.2)		66.2
Total	$	2,733.5	$	783.7	$	(559.5)	$	2,957.7

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Net Expected Loss to be Paid, Net of Benefit for Recoveries of R&W

Roll Forward by Sector(1)

	Net Expected Loss to be Paid as of March 31, 2011 (restated)	Net Economic Loss Development(2) (restated)	Net (Paid) Recovered Losses	Net Expected Loss to be Paid as of June 30, 2011
	(in millions)			
U.S. RMBS:				
First lien:				
Prime first lien	$ 1.5	$ 1.7	$	$ 3.2
Alt-A first lien	394.6	8.6	(25.3)	377.9
Option ARM	409.7	36.2	(95.1)	350.8
Subprime	314.8	(16.8)	(3.5)	294.5
Total first lien	1,120.6	29.7	(123.9)	1,026.4
Second lien:				
Closed-end second lien	(78.1)	(1.4)	(19.5)	(99.0)
HELOCs	(792.7)	27.1	727.3	(38.3)
Total second lien	(870.8)	25.7	707.8	(137.3)
Total U.S. RMBS	249.8	55.4	583.9	889.1
TruPS	89.0	(3.9)	(2.4)	82.7
Other structured finance	271.4	5.4	(0.8)	276.0
Public finance	66.7	(0.3)	(0.2)	66.2
Total	$ 676.9	$ 56.6	$ 580.5	$ 1,314.0

	Net Expected Loss to be Paid as of December 31, 2010 (restated)	Net Economic Loss Development(2) (restated)	Net (Paid) Recovered Losses	Net Expected Loss to be Paid as of June 30, 2011
	(in millions)			
U.S. RMBS:				
First lien:				
Prime first lien	$ 1.4	$ 1.8	$	$ 3.2
Alt-A first lien	399.8	23.0	(44.9)	377.9
Option ARM	628.8	(83.2)	(194.8)	350.8
Subprime	310.6	(3.4)	(12.7)	294.5
Total first lien	1,340.6	(61.8)	(252.4)	1,026.4
Second lien:				
Closed-end second lien	87.5	(135.1)	(51.4)	(99.0)
HELOCs	(805.7)	104.7	662.7	(38.3)
Total second lien	(718.2)	(30.4)	611.3	(137.3)
Total U.S. RMBS	622.4	(92.2)	358.9	889.1
TruPS	90.3	(3.8)	(3.8)	82.7
Other structured finance	261.2	17.8	(3.0)	276.0
Public finance	88.9	(13.5)	(9.2)	66.2
Total	$ 1,062.8	$ (91.7)	$ 342.9	$ 1,314.0

(1) Amounts exclude reserves for mortgage business of $2.1 million as of June 30, 2011 and December 31, 2010.

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

Total economic loss development was $56.6 million ($36.8 million after tax) during Second Quarter 2011, of which $55.4 million was associated with insured U.S. RMBS transactions. The largest individual factor contributing to the economic loss development was a decline in the risk-free rate used to discount losses, which had the most significant effect on closed-end second lien RMBS transactions which are some of the most long-dated transactions in the insured portfolio. While the Company observed improvements in delinquency rates, which is consistent with trends noted in comparable months in prior years, given the lack of significant improvement in other relevant economic indicators such as unemployment rates, the loss models maintained the length of the stress period used in prior quarters, although at lower conditional default rates. Severity assumptions were consistent with First Quarter 2011.

The estimated benefit for R&W declined in Second Quarter 2011 due primarily to the receipt of cash for transactions covered under the Bank of America Agreement. The benefit for R&W, including the 80% loss sharing provision for first lien transactions covered by the Bank of America Agreement are treated as salvage and subrogation. Assured Guaranty has already received $928.1 million of the agreed upon $1.1 billion for second-lien transactions, and $14.9 million representing 80% of claims paid on first lien transactions up to collateral losses of $6.6 billion. As of June 30, 2011, the Company estimates collateral losses of $4.84 billion in these transactions which is relatively unchanged since the closing of the Bank of America Agreement.

In Six Months 2011, before consideration of R&W, economic losses increased due to observed market trends in the mortgage market which indicate that the mortgage recovery has been slower than expected and that loss severities on first lien transactions have increased. During First Quarter 2011, the Company increased the time period over which it expects the conditional default rate to return to a normalized historical rate on second lien transactions and increased severity assumptions on first lien transactions. Reflected in the net expected losses to be paid estimates in the First Quarter 2011 was the economic benefit of the Bank of America Agreement, which provided certainty as to the amount of recoveries for the transactions covered by this agreement and validated the Company s claims against other providers of R&W from which the Company is seeking reimbursement for similar breaches.

The Company s primary loss mitigation activity over the past several years has been pursuing recoveries resulting from breaches of R&W. The Bank of America Agreement represented the Company s largest R&W exposure. Since then, the Company has continued to seek comprehensive agreements with other R&W providers in respect of its claims. The estimated recoveries under the Bank of America Agreement will continue to fluctuate on first lien transactions as the Company updates its loss assumptions and makes claim payments.

For transactions accounted for as financial guaranty insurance under GAAP, each transaction s expected loss to be expensed, net of estimated R&W recoveries, is compared with the deferred premium revenue of that transaction. Generally, when the expected loss to be expensed exceeds the deferred premium revenue, a loss is recognized in the income statement for the amount of such excess. When the Company measures operating income, a non-GAAP financial measure, it calculates the credit derivative and FG VIE losses incurred in a similar manner. Changes in fair value that are not indicative of expected loss are not included in operating income.

For financial guaranty contracts accounted for as insurance, the amounts reported in the GAAP financial statements may only reflect a portion of the current period s economic development and may also include a portion of prior-period economic development. The difference between economic loss development and loss and LAE recognized in income is essentially loss development and accretion for financial guaranty insurance contracts that is, or was previously, absorbed in unearned premium reserve or salvage and subrogation recoverable. Such amounts have not yet been recognized in income. The table below provides a comparison of the pretax reported amounts under both GAAP net income and non-GAAP operating income, and economic loss development by sector.

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Comparison of Loss Measures

	Second Quarter 2011			Second Quarter 2010		
	Loss and LAE Reported(1)	Loss and LAE non-GAAP Operating Basis(2)	Economic Loss Development	Loss and LAE Reported(1)	Loss and LAE non-GAAP Operating Basis(2)	Economic Loss Development
	(in millions)					
	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
U.S. RMBS:						
First lien:						
Prime first lien	$ 1.2	$ 1.2	$ 1.7	$ (0.1)	$	$
Alt-A first lien	17.7	17.1	8.6	8.1	(17.5)	(19.0)
Option ARM	65.4	78.8	36.2	56.6	51.1	34.8
Subprime	(2.2)	(7.1)	(16.8)	16.3	37.2	34.4
Total first lien	82.1	90.0	29.7	80.9	70.8	50.2
Second lien:						
Closed-end second lien	(5.5)	(4.0)	(1.4)	(11.5)	(13.3)	2.8
HELOCs	32.1	37.0	27.1	1.2	11.2	(34.9)
Total second lien	26.6	33.0	25.7	(10.3)	(2.1)	(32.1)
Total U.S. RMBS	108.7	123.0	55.4	70.6	68.7	18.1
Other structured finance	11.1	5.5	1.5	31.8	72.1	77.0
Public finance	4.1	3.8	(0.3)	(16.8)	(17.1)	(28.7)
Total	123.9	132.3	56.6	85.6	123.7	66.4
Other				0.1	0.1	
Total	$ 123.9	$ 132.3	$ 56.6	$ 85.7	$ 123.8	$ 66.4

(1) Represents amounts reported on the consolidated statements of operations which include only those policies that are accounted for as insurance.

(2) Represents reported loss and LAE adjusted to include comparable amounts related to FG VIEs and credit derivatives in a manner consistent with the financial guaranty insurance accounting model.

The table below presents the expected timing of loss recognition for insurance contracts on both a reported GAAP and non-GAAP operating income basis.

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Present Value (PV) of Financial Guaranty Insurance Net Expected Loss to be Expensed

As of June 30, 2011

	Net Expected Loss to be Expensed In GAAP Reported Income	In Non-GAAP Operating Income
	(in millions)	
2011 (July 1 - September 30)	$ 51.1	$ 60.2
2011 (October 1 - December 31)	40.4	48.6
2012	109.2	134.9
2013	64.5	87.1
2014	47.3	67.4
2015	37.6	57.6
2011-2015	350.1	455.8
2016-2020	121.5	186.7
2021-2025	65.9	90.3
2026-2030	33.2	60.7
After 2030	18.4	55.9
Total expected PV of net expected loss to be expensed	589.1	849.4
Discount	442.1	453.3
Total future value	$ 1,031.2	$ 1,302.7

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

Reconciliation of Present Value of Net Expected Loss to be Paid

and Present Value of Net Expected Loss to be Expensed

	GAAP Reported Basis(2)		Non-GAAP Operating Income Basis	
	As of June 30, 2011	As of December 31, 2010	As of June 30, 2011	As of December 31, 2010
	(in millions)			
		(restated)		(restated)
Net expected loss to be paid	$ 718.6	$ 359.6	$ 713.0	$ 408.8
Contra-paid, net	88.6	121.3	226.4	241.3
Salvage and subrogation recoverable, net	271.9	903.0	464.8	995.2
Loss and LAE reserve, net(1)	(490.0)	(550.0)	(554.8)	(599.5)
Net expected loss to be expensed	$ 589.1	$ 833.9	$ 849.4	$ 1,045.8

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

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

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Net Change in Fair Value of Credit Derivatives

Financial guaranty contracts accounted for as credit derivatives are generally structured such that the circumstances giving rise to the Company s obligation to make loss payments are similar to those for financial guaranty insurance contracts and only occurs upon one or more defined credit events such as failure to pay or bankruptcy, in each case, as defined within the transaction documents, with respect to one or more third party referenced securities or loans. Financial guaranty contracts accounted for as credit derivatives are primarily comprised of CDS. In general, the Company structures credit derivative transactions such that the circumstances giving rise to the Company s obligation to make loss payments are similar to those for financial guaranty insurance contracts but are governed by International Swaps and Derivative Association, Inc. (ISDA) documentation. Until the Company ceased selling credit protection through credit derivative contracts in the beginning of 2009, following the issuance of regulatory guidelines that limited the terms under which the credit protection could be sold, management considered these agreements to be a normal part of its financial guaranty business.

These contracts generally qualify as derivatives under U.S. GAAP, and are reported at fair value, with changes in fair value included in earnings. 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. The fair value gain or loss is based on estimated market pricing and may not be an indication of ultimate claims. Changes in fair value of credit derivatives occur because of changes in interest rates, credit spreads, credit ratings of the referenced obligations, the Company s credit spread, settlements and other market factors. The unrealized gains (losses) on credit derivatives, excluding expected losses to be paid (which are included in the previous section), is expected to reverse to zero as the exposure approaches its maturity date, unless there is a payment default on the exposure or early termination that was not anticipated in the expected losses to be paid. Expected losses to be paid in respect of contracts accounted for as credit derivatives are included in the discussion above: *Losses in the insured portfolio*. See also *Liquidity and Capital Resources Liquidity Requirements and Resources* .

In the event that the Company terminates a credit derivative contract prior to maturity, the resulting gain or loss is realized through net change in fair value of credit derivatives. Changes in the fair value of the Company s credit derivatives that do not reflect actual or expected claims or credit losses have no impact on the Company s statutory claims- paying resources, rating agency capital or regulatory capital positions.

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

There are typically no quoted prices for its instruments or similar instruments as CDS issued by financial guaranty insurance companies. Financials guaranty contracts do not typically trade in active markets. Observable inputs other than quoted market prices exist; however, these inputs reflect contracts that do not contain terms and conditions similar to those in the credit derivatives issued by the Company. Therefore, the valuation of the Company s credit derivative contracts requires the use of models that contain significant, unobservable inputs, and are classified as Level 3 in the fair value hierarchy. See Note 6, Fair Value Measurement, of the Financial Statements.

The fair value of these instruments represents the difference between the present value of remaining contractual premiums charged for the credit protection and the estimated present value of premiums that a comparable financial guarantor would hypothetically charge for the same protection at the balance sheet date.

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Contractual cash flows are the most readily observable inputs since they are based on the CDS contractual terms. These variables include:

- net premiums received and receivable on written credit derivative contracts,
- net premiums paid and payable on purchased contracts,
- losses paid and payable to credit derivative contract counterparties, and
- losses recovered and recoverable on purchased contracts.

These models are primarily developed internally based on market conventions for similar transactions that the Company observed in the past. There has been very limited new issuance activity in this market over the past three years and as of June 30, 2011, market prices for the Company s credit derivative contracts were generally not available. Inputs include various market indices, credit spreads, the Company s own credit spread, and estimated contractual payments to estimate the fair value of its credit derivatives.

Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts. These terms differ from more standardized credit derivatives sold by companies outside of the financial guaranty industry. The non-standard terms include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points. Because of these terms and conditions, the fair value of the Company s credit derivatives may not reflect the same prices observed in an actively traded market of CDS that do not contain terms and conditions similar to those observed in the financial guaranty market. The Company s 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 and relevant market information. The Company considers R&W claim recoveries in determining the fair value of its CDS contracts.

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 credit derivative instruments is affected by current market conditions. Management considers factors such as current prices charged for similar agreements, performance of underlying assets, life of the instrument and the nature and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that management uses to determine its fair value may change in the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models to determine the fair value, actual experience may differ from the estimates reflected in the Company s consolidated financial statements and the differences may be material.

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

	Second Quarter		Six Months	
	2011	2010	2011	2010
		(in millions)		
	(restated)		(restated)	
Net credit derivative premiums received and receivable	$ 47.6	$ 50.7	$ 107.2	$ 104.4
Net ceding commissions (paid and payable) received and receivable	0.8	1.0	2.2	2.0
Realized gains on credit derivatives	48.4	51.7	109.4	106.4
Termination losses	(22.5)		(22.5)	
Net credit derivative losses (paid and payable) recovered and recoverable	(36.7)	(13.3)	(62.3)	(41.3)
Total realized gains and other settlements on credit derivatives	(10.8)	38.4	24.6	65.1
Total unrealized gains (losses) on credit derivatives	(54.0)	35.1	(325.6)	287.2
Net change in fair value of credit derivatives	$ (64.8)	$ 73.5	$ (301.0)	$ 352.3

Net credit derivative premiums have declined in Second Quarter and Six Months 2011 compared with Second Quarter and Six Months 2010 due to the decline in the net par outstanding to $98.0 billion as of June 30,

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2011 from $106.4 billion as of March 31, 2011 and $109.8 billion as of December 31, 2010. The Company has terminated $5.2 billion in net par outstanding in Second Quarter 2011 and $7.7 billion in Six Months 2011 resulting in accelerations of future premiums of $6.1 million and $21.6 million, respectively. Due to the lack of new business volume in CDS form, premiums are expected to decline in the foreseeable future. In addition, several CMBS CDS contracts were terminated for a payment of $22.5 million in Second Quarter 2011. These contracts had carried high rating agency capital charges prior to termination.

Net Change in Unrealized Gains (Losses) on Credit Derivatives by Sector

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

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

Effect of the Company s Credit Spread Change on

Fair Value of Credit Derivatives Gains (Losses)

	Second Quarter 2011 (restated)	Second Quarter 2010	Six Months 2011 (restated)	Six Months 2010
	(in millions)			
Change in fair value of credit derivatives:				
Before considering implication of the Company s credit spreads	$ 143.5	$ (357.7)	$ 102.5	$ 214.5
Resulting from change in the Company s credit spreads	(197.5)	392.8	(428.1)	72.7

After considering implication of the Company s credit spreads	$	(54.0)	$	35.1	$	(325.6)	$	287.2

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

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

With respect to CDS transactions for which there is an expected claim payment within the next twelve months, the allocation of gross spreads was revised in First Quarter 2011 to reflect a higher allocation to the cost of credit rather than the bank profit component. In the current market, it is assumed that a bank would be willing to accept a lower profit on distressed transactions in order to remove these transactions from its financial statements. The effect of this refinement in assumptions was an increase in fair value losses of $260.4 million during First Quarter 2011 and was concentrated in the Alt-A first lien and Option ARM sectors. The remainder of the unrealized fair value losses for Six Months 2011 was primarily driven by wider implied net spreads in the Alt-A first lien and Option ARMs, and Subprime RMBS sectors. The wider implied net spreads were a result of price deterioration as well as the decreased cost to buy protection in AGC s name as the market cost of AGC s credit protection declined during the period. These transactions were pricing above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC declined, which management refers to as the CDS spread on AGC, the implied spreads that the Company would expect to receive on these transactions increased. The unrealized losses for Six Months 2011 in the Option ARM and Alt-A first lien sectors were partially offset by an increase in R&W benefits on several credit derivative transactions within these sectors, as a result of a recent settlement with a CDS counterparty. The cost of AGM s credit protection also declined during Six Months 2011, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels.

Historically, the price of CDS traded on AGC and AGM moves directionally the same as general market spreads. An overall narrowing of spreads generally results in an unrealized gain on credit derivatives for the Company, and an overall widening of spreads generally results in an unrealized loss for the Company. The following table summarizes the estimated change in fair values on the net balance of the Company s CDS positions assuming immediate parallel shifts in credit spreads on AGC and AGM and on the risks that they both assume:

Credit Spreads(1)	As of June 30, 2011 Estimated Net Fair Value (Pretax) (restated)	As of June 30, 2011 Estimated Change in Gain/(Loss) (Pretax)	As of December 31, 2010 Estimated Net Fair Value (Pretax) (restated)	As of December 31, 2010 Estimated Change in Gain/(Loss) (Pretax)
	(in millions)			
100% widening in spreads	$ (4,532.0)	$ (2,344.5)	$ (3,961.7)	$ (2,091.8)
50% widening in spreads	(3,363.3)	(1,175.8)	(2,923.3)	(1,053.4)
25% widening in spreads	(2,777.5)	(590.0)	(2,399.2)	(529.3)
10% widening in spreads	(2,426.4)	(238.9)	(2,084.1)	(214.2)
Base Scenario	(2,187.5)		(1,869.9)	
10% narrowing in spreads	(1,988.8)	198.7	(1,706.9)	163.0
25% narrowing in spreads	(1,691.0)	496.5	(1,462.5)	407.4
50% narrowing in spreads	(1,199.4)	988.1	(1,059.8)	810.1

(1) Includes the effects of spreads on both the underlying asset classes and the Company s own credit spread.

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Provision for Income Tax

For Second Quarters 2011 and 2010, the effective tax rate was (52.9%) and 30.3%, respectively. For Six Months 2011 and 2010 the effective tax rate was 21.6% and 27.8%, respectively. The Company s effective tax rates reflect the proportion of income recognized by each of the Company s operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, United Kingdom (U.K.) subsidiaries taxed at the U.K. blended marginal corporate tax rate of 26.5%, and no taxes for the Company s Bermuda holding company and subsidiaries. For periods subsequent to April 1, 2011, the U.K. corporation tax rate has been reduced to 26%, for periods prior to April 1, 2011 the U.K. corporation tax rate was 28%, resulting in a blended tax rate of 26.5%. Accordingly, the Company s overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions. Second Quarter 2011 and Six Months 2011 have income earned primarily by taxable entities with some losses incurred in non-taxable entities, offset by tax-exempt interest, and is the primary reason for the (52.9%) and 21.6% effective tax rate, respectively. Second Quarter 2010 and Six Months 2010 had income earned primarily by taxable entities, offset by tax-exempt interest, and is the primary reason for the 30.3% and 27.8% effective tax rate, respectively.

Financial Guaranty Variable Interest Entities

Based on the assessment of its control rights over servicer or collateral manager replacement, given that servicing/managing collateral were deemed to be the VIEs most significant activities, 35 VIEs required consolidation as of June 30, 2011 compared with 29 as of December 31, 2010. This resulted in an increase in FG VIEs assets of $254.8 million, an increase in FG VIEs liabilities of $305.2 million and a net loss on consolidation of $95.3 million, which was included in net change in fair value of FG VIEs in the consolidated statement of operations. In addition, debt on two FG VIEs was fully paid off during Second Quarter 2011. The following table presents the effects on reported GAAP income resulting from consolidating these FG VIEs and eliminating their related insurance accounting entries and represents the difference between GAAP reported net income and non-GAAP operating income. See *Non-GAAP Financial Measures Operating Income* below.

Effect of Consolidating FG VIEs

On Reported GAAP

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
	(restated)	(restated)	(restated)	(restated)
Net earned premiums(1)	$ (18.3)	$ (10.7)	$ (37.4)	$ (21.6)
Net investment income	(0.4)		(0.7)	
Net realized investment gains (losses)	0.2		0.5	
Net change in fair value of FG VIEs	(174.3)	(27.4)	(54.7)	(36.3)
Loss and LAE(2)	16.9	10.1	67.6	34.2
Total pretax effect on net income	(175.9)	(28.0)	(24.7)	(23.7)
Less: tax provision (benefit)	(61.6)	(9.8)	(8.6)	(8.3)
Total effect on net income	$ (114.3)	$ (18.2)	$ (16.1)	$ (15.4)

(1) Represents net earned premiums of consolidated FG VIEs that were eliminated upon consolidation.

(2) Represents loss and LAE of consolidated FG VIEs that were eliminated upon consolidation.

Net change in fair value of FG VIEs represents the net change in fair value of the consolidated FG VIEs assets and liabilities that is reported under GAAP. These contracts are not actively traded and therefore management expects the fair value gains and losses to reverse to zero as the contract approaches maturity, except for economic claim payments. During Second Quarter 2011, the Company determined that, based on the assessment of its control rights over servicer or collateral manager replacement, given that servicing/managing collateral were deemed to be

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the VIEs most significant activities, eight additional VIEs required consolidation, bringing the total consolidated FG VIEs to 35 at June 30, 2011. The Company recorded after-tax mark to market losses of $133.5 million on these consolidated FG VIEs where $61.9 million was due to the consolidation of eight new VIEs and $71.6 million was mainly driven by two existing transactions in which the fair value of the underlying collateral depreciated, while the price of the wrapped senior bonds was largely unchanged from the prior quarter.

Expected losses to be paid (recovered) in respect of consolidated FG VIEs, which were $(5.6) million as of June 30, 2011 and $49.2 million as of December 31, 2010, are included in the discussion of *Losses in the Insured Portfolio* above.

Non-GAAP Financial Measures

To reflect the key financial measures management analyzes in evaluating the Company s operations and progress towards long-term goals, the Company discusses both measures promulgated in accordance with GAAP and measures not promulgated in accordance with GAAP (non-GAAP financial measures). Although the financial measures identified as non-GAAP should not be considered substitutes for GAAP measures, management considers them key performance indicators and employs them as well as other factors in determining compensation. Non-GAAP financial measures, therefore, provide investors with important information about the key financial measures management utilizes in measuring its business. The primary limitation of non-GAAP financial measures is the potential lack of comparability to those of other companies, which may define non-GAAP measures differently because there is limited literature with respect to such measures. Three of the primary non-GAAP financial measures analyzed by the Company s senior management are: operating income, adjusted book value and PVP.

Assured Guaranty s management and board of directors utilize non-GAAP financial measures in evaluating the Company s financial performance and as a basis for determining senior management incentive compensation. By providing these non-GAAP financial measures, investors, analysts and financial news reporters have access to the same information that management reviews internally. In addition, Assured Guaranty s presentation of non-GAAP financial measures is consistent with how analysts calculate their estimates of Assured Guaranty s financial results in their research reports on Assured Guaranty and with how investors, analysts and the financial news media evaluate Assured Guaranty s financial results.

The following paragraphs define each non-GAAP financial measure and describe why it is useful. A reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure, if available, is also presented below. Non-GAAP financial measures should not be viewed as substitutes for their most directly comparable GAAP measures.

Operating Income

The table below presents net income and a reconciliation to operating income. The Company revised its definition of operating income in the second quarter of 2010 to exclude foreign exchange revaluation gains and losses on premiums receivable. Prior and subsequent periods are presented on a consistent basis with this revised definition.

Reconciliation of Net Income (Loss) to Operating Income

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
	(restated)	(restated)	(restated)	(restated)
Net income (loss)	$ (42.6)	$ 179.1	$ 98.0	$ 512.6
Less after-tax adjustments:				
Realized gains (losses) on investments	(2.8)	(4.3)	(0.9)	2.4
Non-credit-impairment unrealized fair value gains (losses) on credit derivatives	(73.6)	40.6	(291.3)	271.4
Fair value gains (losses) on committed capital securities	0.4	8.2	0.7	7.4
Foreign exchange gains (losses) on revaluation of premiums receivable	3.8	(19.0)	13.0	(42.0)
Effect of consolidating FG VIEs	(114.3)	(18.2)	(16.1)	(15.4)
Operating income	$ 143.9	$ 171.8	$ 392.6	$ 288.8

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Management believes that operating income is a useful measure because it clarifies the understanding of the underwriting results of the Company s financial guaranty insurance business, and also includes financing costs and net investment income, and enables investors and analysts to evaluate the Company s financial results as compared with the consensus analyst estimates distributed publicly by financial databases. Operating income is defined as net income (loss) attributable to Assured Guaranty Ltd., as reported under GAAP, adjusted for the following:

1) Elimination of the after-tax realized gains (losses) on the Company s investments, except for gains and losses on securities classified as trading. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company s discretion and influenced by market opportunities, as well as the Company s tax and capital profile. Trends in the underlying profitability of the Company s business can be more clearly identified without the fluctuating effects of these transactions.

2) Elimination of the after-tax non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss. Additionally, such adjustments present all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.

3) Elimination of the after-tax fair value gains (losses) on the Company s committed capital securities (CCS). Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.

4) Elimination of the after-tax foreign exchange gains (losses) on revaluation of net premium receivables. Long-dated receivables constitute a significant portion of the net premium receivable balance and represent the present value of future contractual or expected collections. Therefore, the current period s foreign exchange revaluation gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.

5) Elimination of the effects of consolidating certain FG VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.

Adjusted Book Value and Operating Shareholders Equity

Management also uses adjusted book value to measure the intrinsic value of the Company, excluding franchise value. Growth in adjusted book value is one of the key financial measures used in determining the amount of certain long term compensation to management and employees and used by rating agencies and investors.

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Reconciliation of Shareholders Equity to Adjusted Book Value

	As of June 30, 2011		As of December 31, 2010	
	Total	Per Share	Total	Per Share
	(dollars in millions, except share and per share amounts)			
	(restated)	(restated)	(restated)	(restated)
Shareholders equity	$ 3,913.9	$ 21.25	$ 3,733.5	$ 20.32
Less after-tax adjustments:				
Effect of consolidating FG VIEs	(342.6)	(1.86)	(371.4)	(2.02)
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(1,037.3)	(5.63)	(763.0)	(4.15)
Fair value gains (losses) on committed capital securities	12.9	0.07	12.2	0.07
Unrealized gain (loss) on investment portfolio excluding foreign exchange effect	152.3	0.83	101.2	0.55
Operating shareholders equity	5,128.6	27.84	4,754.5	25.88
After-tax adjustments:				
Less: Deferred acquisition costs	238.2	1.29	248.4	1.35
Plus: Net present value of estimated net future credit derivative revenue	353.3	1.92	424.8	2.31
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	3,824.1	20.76	4,058.0	22.08
Adjusted book value	$ 9,067.8	$ 49.23	$ 8,988.9	$ 48.92

As of June 30, 2011, shareholders equity increased to $3.9 billion from $3.7 billion at December 31, 2010 due primarily to net income of $98.0 million and unrealized gains on the investment portfolio. Adjusted book value and adjusted book value per share increased slightly, mainly due to PVP, commutations, and loss mitigation efforts, particularly the Bank of America Agreement, which offset economic loss development. Shares outstanding increased slightly by 0.5 million due to issuance of vested restricted stock awards and units in Six Months 2011.

Management believes that operating shareholders equity is a useful measure because it presents the equity of AGL with all financial guaranty contracts accounted for on a more consistent basis and excludes fair value adjustments that are not expected to result in economic loss. Many investors, analysts and financial news reporters use operating shareholders equity as the principal financial measure for valuing AGL s current share price or projected share price and also as the basis of their decision to recommend to buy or sell AGL s common shares. Many of the Company s fixed income investors also use operating shareholders equity to evaluate the Company s capital adequacy. Operating shareholders equity is the basis of the calculation of adjusted book value (see below). Operating shareholders equity is defined as shareholders equity attributable to Assured Guaranty Ltd., as reported under GAAP, adjusted for the following:

1) Elimination of the effects of consolidating certain VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.

2) Elimination of the after-tax non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses and non-economic payments. Such fair value adjustments

are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.

3) Elimination of the after-tax fair value gains (losses) on the Company s CCS. Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.

4) Elimination of the after-tax unrealized gains (losses) on the Company s investments that are recorded as a component of accumulated other comprehensive income (AOCI) (excluding foreign exchange revaluation). The AOCI component of the fair value adjustment on the investment portfolio is not deemed economic because the Company generally holds these investments to maturity and therefore will not recognize an economic loss.

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Management believes that adjusted book value is a useful measure because it enables an evaluation of the net present value of the Company s in-force premiums and revenues in addition to operating shareholders equity. The premiums and revenues included in adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current adjusted book value due to changes in, foreign exchange rates, refinancing or refunding activity, prepayment speeds, terminations, credit defaults and other factors. Many investors, analysts and financial news reporters use adjusted book value to evaluate AGL s share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Adjusted book value is operating shareholders equity, as defined above, further adjusted for the following:

1) Elimination of after-tax deferred acquisition costs. These amounts represent net deferred expenses that have already been paid or accrued and will be expensed in future accounting periods.

2) Addition of the after-tax net present value of estimated net future credit derivative revenue. See below.

3) Addition of the after-tax value of the unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums, net of expected losses to be expensed, which are not reflected in GAAP equity.

Net Present Value of Estimated Net Future Credit Derivative Revenue

Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated credit derivative revenue. There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from the Company s credit derivative in-force book of business, net of reinsurance, ceding commissions and premium taxes for contracts without expected economic losses, and is discounted at 6% (which represents the Company s tax-equivalent pretax investment yield on its investment portfolio). Estimated net future credit derivative revenue may change from period to period due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults or other factors that affect par outstanding or the ultimate maturity of an obligation.

PVP or Present Value of New Business Production

Management believes that PVP is a useful measure because it enables the evaluation of the value of new business production for the Company by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period as well as premium supplements and additional installment premium on existing contracts as to which the issuer has the right to call the insured obligation but has not exercised such right, whether in insurance or credit derivative contract form, which GAAP gross premiums written and the net credit derivative premiums received and receivable portion of net realized gains and other settlement on credit derivatives (Credit Derivative Revenues) do not adequately measure. PVP in respect of insurance and credit derivative contracts written in a specified period is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums, in each case, discounted at 6% (the Company s tax-equivalent pretax investment yield on its investment portfolio). For purposes of the PVP calculation, management discounts estimated future installment premiums on insurance contracts at 6%, while under GAAP, these amounts are discounted at a risk-free rate. Additionally, under GAAP, management records future installment premiums on financial guaranty insurance contracts covering non-homogeneous pools of assets based on the contractual term of the transaction, whereas for PVP purposes, management records an estimate of the future installment premiums the Company expects to receive, which may be based upon a shorter period of time than the contractual term of the transaction. Actual future net earned or written premiums and Credit Derivative Revenues may differ from PVP due to factors including, but not limited to, changes in foreign exchange rates, refinancing or refunding activity, prepayment speeds, terminations, credit defaults, or other factors that affect par outstanding or the ultimate maturity of an obligation.

The table below reconciles PVP to gross written premiums.

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Reconciliation of PVP to Gross Written Premium

	Second Quarter		Six Months	
	2011	2010	2011	2010
	(in millions)			
Total PVP	$ 51.9	$ 89.9	$ 104.4	$ 168.7
Less: PVP of credit derivatives				
PVP of financial guaranty insurance	51.9	89.9	104.4	168.7
Less: Financial guaranty installment premium PVP	5.9	8.0	24.6	12.5
Total: Financial guaranty upfront gross written premiums	46.0	81.9	79.8	156.2
Plus: Financial guaranty installment gross written premiums	(29.0)	9.8	(74.3)	27.6
Total gross written premiums	$ 17.0	$ 91.7	$ 5.5	$ 183.8

Insured Portfolio

The following tables present the insured portfolio by asset class net of cessions to reinsurers as of June 30, 2011 and December 31, 2010. See Reinsurance in Note 12 of the Financial Statements for information related to reinsurers. It includes all financial guaranty contracts outstanding as of the dates presented, regardless of the form written (i.e. credit derivative form or traditional financial guaranty insurance form) or the applicable accounting model (i.e. insurance, derivative or VIE accounting).

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Net Par Outstanding and Average Internal Rating by Asset Class

Sector	As of June 30, 2011 Net Par Outstanding	As of June 30, 2011 Avg. Rating	As of December 31, 2010 Net Par Outstanding	As of December 31, 2010 Avg. Rating
	(dollars in millions)			
Public finance:				
U.S.:				
General obligation	$ 176,157	A+	$ 181,799	A+
Tax-backed	80,770	A+	83,403	A+
Municipal utilities	67,777	A	70,066	A
Transportation	36,061	A	36,973	A
Healthcare	20,342	A	21,592	A
Higher education	15,548	A+	15,687	A+
Housing	6,146	AA-	6,562	AA-
Infrastructure finance	4,170	BBB+	4,092	BBB+
Investor-owned utilities	1,217	A-	1,505	A-
Other public finance U.S.	5,086	A-	5,317	A-
Total public finance U.S.	413,274	A+	426,996	A+
Non-U.S.:				
Infrastructure finance	16,107	BBB	15,973	BBB
Regulated utilities	13,884	BBB+	13,978	BBB+
Pooled infrastructure	3,569	AA	3,432	AA
Other public finance non-U.S.	7,666	A+	7,360	AA-
Total public finance non-U.S.	41,226	A-	40,743	A-
Total public finance	454,500	A	467,739	A
Structured finance:				
U.S.:				
Pooled corporate obligations	59,746	AAA	67,384	AAA
RMBS	23,266	BB	25,130	BB
CMBS and other commercial real estate related exposures	4,888	AAA	7,084	AAA
Financial products(1)	5,914	AA-	6,831	AA-
Consumer receivables	5,057	A+	6,073	AA-
Commercial receivables	1,904	BBB+	2,139	BBB+
Insurance securitizations	1,643	A+	1,584	A+
Structured credit	434	B	1,729	BBB
Other structured finance U.S.	1,126	A-	802	A-
Total structured finance U.S.	103,978	AA-	118,756	AA-
Non-U.S.:				
Pooled corporate obligations	22,076	AAA	22,610	AAA
RMBS	2,609	AA	3,394	AA+
Commercial receivables	1,372	A-	1,729	A-
Structured credit	1,130	BBB	1,267	BBB
Insurance securitizations	964	CCC-	964	CCC-
CMBS and other commercial-real-estate-related exposures	188	AAA	251	AAA
Other structured finance non-U.S.	379	Super Senior	421	Super Senior
Total structured finance non-U.S.	28,718	AA+	30,636	AA+
Total structured finance	132,696	AA-	149,392	AA
Total net par outstanding	$ 587,196	A+	$ 617,131	A+

The June 30, 2011 and December 31, 2010 amounts above include $70.6 billion and $78.4 billion, respectively, of AGM structured finance net par outstanding. AGM has not insured a mortgage-backed transaction since January 2008 and announced its complete withdrawal from the structured finance market in August 2008. The

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structured finance transactions that remain in AGM s insured portfolio are of double-A average underlying credit quality, according to the Company s internal rating system. Management expects AGM s structured finance portfolio to run off rapidly: 13% by year-end 2011, 50% by year end 2013, and 77% by year-end 2015.

The following tables set forth the Company s net financial guaranty portfolio as of June 30, 2011 and December 31, 2010 by internal rating:

Financial Guaranty Portfolio by Internal Rating

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

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

Significant Risk Management Activities

Surveillance Categories

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

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

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Credits identified as BIG are subjected to further review to determine the probability of a loss (see Losses in the Insured Portfolio above). Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a lifetime loss is expected and whether a claim has been paid. The Company expects lifetime losses on a transaction when the Company believes there is more than a 50% chance that, on a present value basis, it will pay more claims over the life of that transaction than it will ultimately have been reimbursed. For surveillance purposes, the Company calculates present value using a constant discount rate of 5%. (A risk-free rate is used for recording of reserves for financial statement purposes.) A liquidity claim is a claim that the Company expects to be reimbursed within one year.

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

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make lifetime losses possible, but for which none are currently expected. Transactions on which claims have been paid but are expected to be fully reimbursed (other than investment grade transactions on which only liquidity claims have been paid) are in this category.

- BIG Category 2: Below-investment-grade transactions for which lifetime losses are expected but for which no claims (other than liquidity claims) have yet been paid.

- BIG Category 3: Below-investment-grade transactions for which lifetime losses are expected and on which claims (other than liquidity claims) have been paid. Transactions remain in this category when claims have been paid and only a recoverable remains.

By Category Below-Investment-Grade Credits

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

	As of December 31, 2010					
	Net Par Outstanding			Number of Credits		
Description	Financial Guaranty Insurance	Credit Derivative	Total	Financial Guaranty Insurance	Credit Derivative	Total
			(dollars in millions)			
	(restated)		(restated)	(restated)		(restated)
BIG:						

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

Exposure to Residential Mortgage-Backed Securities

The tables below provide information on the risk ratings and certain other risk characteristics of the Company s financial guaranty insurance and credit derivative RMBS exposures as of June 30, 2011. U.S. RMBS exposures represent 4.0% of the total net par outstanding and 57.1% of total BIG net par outstanding. The tables

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presented provide information with respect to the underlying performance indicators of this book of business. Please refer to Note 5 of the Financial Statements for a discussion of expected losses to be paid on U.S. RMBS exposures.

Net par outstanding in the following tables are based on values as of June 30, 2011. All performance information such as pool factor, subordination, cumulative losses and delinquency is based on June 30, 2011 information obtained from Intex, Bloomberg, and/or provided by the trustee and may be subject to restatement or correction.

Pool factor in the following tables is the percentage of the current collateral balance divided by the original collateral balance of the transactions at inception.

Subordination in the following tables represents the sum of subordinate tranches and overcollateralization, expressed as a percentage of total transaction size and does not include any benefit from excess interest collections that may be used to absorb losses. Many of the closed-end second lien transactions insured by the Company have unique structures whereby the collateral may be written down for losses without a corresponding write-down of the obligations insured by the Company. Many of these transactions are currently undercollateralized, with the principal amount of collateral being less than the principal amount of the obligation insured by the Company. The Company is not required to pay principal shortfalls until legal maturity (rather than making timely principal payments), and takes the undercollateralization into account when estimating expected losses for these transactions.

Cumulative losses in the following tables are defined as net charge-offs on the underlying loan collateral divided by the original pool balance.

60+ day delinquencies in the following tables are defined as loans that are greater than 60 days delinquent and all loans that are in foreclosure, bankruptcy or real estate owned divided by net par outstanding.

U.S. Prime First Lien in the tables below includes primarily prime first lien plus an insignificant amount of other miscellaneous RMBS transactions.

The Company has not insured or reinsured any U.S. RMBS transactions since June 2008.

Distribution of U.S. RMBS by Internal Rating and Type of Exposure as of June 30, 2011

Ratings:	Prime First Lien	Closed End Second Lien	HELOC	Alt-A First Lien	Option ARM	Subprime First Lien	Net Interest Margin	Total Net Par Outstanding
				(in millions)				
AAA	$ 8	$ 0	$ 402	$ 89	$	$ 2,053	$	$ 2,552

AA	22	28	240	263	26	1,899	0	2,477
A	17	1	23	39	111	1,157		1,347
BBB	131		12	329	110	450	0	1,033
BIG	608	1,058	3,604	5,011	2,562	2,967	46	15,857
Total exposures	$ 786	$ 1,087	$ 4,281	$ 5,731	$ 2,809	$ 8,526	$ 46	$ 23,266

Distribution of U.S. RMBS by Year Insured and Type of Exposure as of June 30, 2011

Year insured:	Prime First Lien	Closed End Second Lien	HELOC	Alt-A First Lien	Option ARM	Subprime First Lien	Net Interest Margin	Total Net Par Outstanding
				(in millions)				
2004 and prior	$ 48	$ 1	$ 324	$ 123	$ 47	$ 1,566	$ 0	$ 2,109
2005	179		953	661	130	342	0	2,265
2006	130	451	1,296	452	683	3,626	0	6,638
2007	429	634	1,708	2,896	1,849	2,895	46	10,457
2008				1,599	101	98		1,797
Total exposures	$ 786	$ 1,087	$ 4,281	$ 5,731	$ 2,809	$ 8,526	$ 46	$ 23,266

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Distribution of U.S. RMBS by Internal Rating and Year Insured as of June 30, 2011

Year insured:	AAA Rated	AA Rated	A Rated	BBB Rated	BIG Rated	Total
			(dollars in millions)			
2004 and prior	$ 1,380	$ 105	$ 104	$ 154	$ 365	$ 2,109
2005	146	150	40	96	1,833	2,265
2006	730	1,663	1,065	210	2,969	6,638
2007	278	411	38	572	9,159	10,457
2008	17	148	101		1,531	1,797
Total exposures	$ 2,552	$ 2,477	$ 1,347	$ 1,033	$ 15,857	$ 23,266
% of total	11.0%	10.6%	5.8%	4.4%	68.2%	100.0%

Distribution of Financial Guaranty Direct U.S. RMBS

Insured January 1, 2005 or Later by Exposure Type, Average Pool Factor, Subordination,

Cumulative Losses and 60+ Day Delinquencies as of June 30, 2011

U.S. Prime First Lien

Year insured:	Net Par Outstanding	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
			(dollars in millions)			
2005	$ 175	45.2%	5.3%	1.2%	9.4%	6
2006	130	61.5	8.3	0.0	16.2	1
2007	429	57.1	9.5	3.2	15.4	1
2008						
	$ 735	55.1%	8.3%	2.1%	14.1%	8

U.S. Closed End Second Lien

Year insured:	Net Par Outstanding	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
			(dollars in millions)			
2005	$	%	%	%	%	
2006	440	17.4		59.0	11.1	2
2007	634	21.2		64.5	10.5	10
2008						
	$ 1,074	19.7%	%	62.3%	10.7%	12

U.S. HELOC

Year insured:	Net Par Outstanding	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
	(dollars in millions)					
2005	$ 900	19.0%	2.7%	14.3%	12.0%	6
2006	1,273	30.9	2.1	31.9	10.6	7
2007	1,708	45.9	3.2	28.0	6.1	9
2008						
	$ 3,881	34.8%	2.7%	26.1%	9.0%	22

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U.S. Alt-A First Lien

Year insured:	Net Par Outstanding	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
			(dollars in millions)			
2005	$ 659	37.2%	10.6%	5.4%	18.6%	21
2006	452	43.9	0.0	15.5	37.1	7
2007	2,896	55.3	5.7	11.1	32.7	12
2008	1,599	51.7	24.3	11.0	30.5	5
	$ 5,606	51.2%	11.1%	10.8%	30.8%	45

U.S. Option ARM

Year insured:	Net Par Outstanding	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
			(dollars in millions)			
2005	$ 121	26.7%	8.4%	8.7%	38.4%	4
2006	677	51.1	3.2	12.8	53.2	7
2007	1,849	55.4	4.2	13.9	40.8	11
2008	101	58.0	49.3	9.5	37.6	1
	$ 2,747	53.2%	5.8%	13.2%	43.6%	23

U.S. Subprime First Lien

Year insured:	Net Par Outstanding	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
			(dollars in millions)			
2005	$ 333	35.7%	45.3%	5.7%	39.7%	7
2006	3,619	23.9	61.6	15.1	38.6	4
2007	2,895	55.6	24.7	15.8	47.3	13
2008	81	67.9	30.5	10.1	25.9	1
	$ 6,927	38.2%	45.0%	14.9%	42.1%	25

Exposures by Reinsurer

Ceded par outstanding represents the portion of insured risk ceded to other reinsurers. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and been downgraded by the rating agencies as a result. In addition, state insurance regulators have intervened with respect to some of these insurers.

Assumed par outstanding represents the amount of par assumed by the Company from other monolines. Under these relationships, the Company assumes a portion of the ceding company s insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums.

In addition to assumed and ceded reinsurance arrangements, the company may also have exposure to some financial guaranty reinsurers (i.e., monolines) in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by other monolines. The Company underwrites

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such transactions based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed maturity securities that are wrapped by monolines and whose value may decline based on the rating of the monoline. At June 30, 2011, the Company had $828.8 million of fixed maturity securities in its investment portfolio wrapped by MBIA Insurance Corporation, $598.5 million by Ambac Assurance Corp. and $54.4 million by other guarantors at fair value.

Exposure by Reinsurer

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

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

(2) Represents Withdrawn Rating.

(3) Includes $6,534.4 million in ceded par outstanding related to insured credit derivatives.

Ceded Par Outstanding by Reinsurer and Credit Rating

As of June 30, 2011

Reinsurer	Super Senior	AAA	AA	A	BBB	BIG	Total
	Internal Credit Rating (in millions)						
Radian Asset Assurance Inc.	$ 186	$ 1,013	$ 9,054	$ 7,515	$ 2,731	$ 360	$ 20,859
Tokio Marine & Nichido Fire Insurance Co., Ltd.	454	1,753	5,447	6,254	3,194	864	17,966
RAM Reinsurance Co. Ltd.	377	2,109	4,425	3,484	1,848	458	12,701
Syncora Guarantee Inc.			454	831	2,908	141	4,334
Mitsui Sumitomo Insurance Co. Ltd.	8	156	865	918	418	77	2,442
ACA Financial Guaranty Corp			574	247	45		866
Swiss Reinsurance Co.		10	108	215	98	81	512
Ambac Assurance Corporation				87			87
CIFG Assurance North America Inc.						69	69
MBIA Insurance Corporation			45				45
Other			224	742	86		1,052
Total	$ 1,025	$ 5,041	$ 21,196	$ 20,293	$ 11,328	$ 2,050	$ 60,933

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In accordance with statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. All of the unauthorized reinsurers in the table above post collateral for the benefit of the Company in an amount equal to at least the sum of their ceded unearned premium reserve, loss reserves and contingency reserves, all calculated on a statutory basis of accounting. CIFG Assurance North America Inc. and Radian Asset Assurance Inc. are authorized reinsurers. Their collateral equals or exceeds their ceded statutory loss reserves. Collateral may be in the form of letters of credit or trust accounts. The total collateral posted by all non-affiliated reinsurers as of June 30, 2011 is approximately $1 billion.

Second-to-Pay

Insured Par Outstanding by Internal Rating

As of June 30, 2011

	Public Finance						Structured Finance						
	Super Senior	**AAA**	**AA**	**A**	**BBB**	**BIG**	**Super Senior**	**AAA**	**AA**	**A**	**BBB**	**BIG**	**Total**
							(in millions)						
Radian Asset Assurance Inc.	$	$	$	$ 13	$ 31	$ 11	$	$ 1	$	$	$	$	$ 56
Syncora Guarantee Inc.			3	446	719	344		282	148	118		263	2,323
ACA Financial Guaranty Corp			7		6								13
Ambac Assurance Corporation		6	2,133	3,068	1,236	379		147	73	267	89	302	7,700
CIFG Assurance North America Inc.			11	69	133	45							258
MBIA Insurance Corporation		10	3,223	4,524	1,934	30			1,357	57	544	25	11,704
Financial Guaranty Insurance Co			167	1,255	615	373	476	765		125	12	66	3,854
Other				2,061									2,061
Total	$	$ 16	$ 5,544	$ 11,436	$ 4,674	$ 1,182	$ 476	$ 1,195	$ 1,578	$ 567	$ 645	$ 656	$ 27,969

Liquidity and Capital Resources

AGL and its Holding Company Subsidiaries

AGL and its holding company subsidiaries liquidity is largely dependent on its operating results and its access to external financings. Liquidity requirements include the payment of operating expenses, interest on debt of Assured Guaranty US Holdings Inc. (AGUS) and Assured Guaranty Municipal Holdings Inc. (AGMH) and dividends on common shares. AGL and its holding company subsidiaries may also require liquidity to make periodic capital investments in its operating subsidiaries. In the ordinary course of business, the Company evaluates its liquidity needs and capital resources in light of holding company expenses and dividend policy, as well as rating agency considerations. Management believes that AGL will have sufficient liquidity to satisfy its needs over the next twelve months, including the ability to pay dividends on AGL common shares. See Insurance Company Regulatory Restrictions below for a discussion of dividend restrictions. In addition, under the terms of the purchase agreement under which AGMH was acquired, AGM is subject to a dividend restriction until July 1, 2012.

The Company anticipates that for the next twelve months, amounts paid by AGL s operating subsidiaries as dividends will be a major source of its liquidity. It is possible that in the future, AGL or its subsidiaries may need to seek additional external debt or equity financing in order to meet its obligations. External sources of financing may or may not be available to the Company, and if available, the cost of such financing may be higher than the Company s current level.

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AGL and Holding Company Subsidiaries

Significant Cash Flow Items

	Six Months 2011	Six Months 2010
	(in millions)	
Dividends and return of capital from subsidiaries	$ 59.0	$ 55.0
Dividends paid	(16.6)	(16.6)
Interest paid	(42.2)	(42.2)

Insurance Company Subsidiaries

Liquidity of the insurance company subsidiaries is primarily used to pay (1) operating expenses, (2) claims, including payment obligations in respect of credit derivatives, (4) collateral postings in connection with credit derivatives and reinsurance transactions, (4) reinsurance premiums, (5) dividends to AGUS and AGMH for debt service and dividends to AGL, and (6) where appropriate, to make capital investments in their own subsidiaries. Management believes that its subsidiaries liquidity needs for the next twelve months can be met from current cash, short-term investments and operating cash flow, including premium collections and coupon payments as well as scheduled maturities and paydowns from their respective investment portfolios.

Beyond the next 12 months, the ability of the operating subsidiaries to declare and pay dividends may be influenced by a variety of factors, including market conditions, insurance regulations and rating agency capital requirements and general economic conditions.

Insurance policies issued provide, in general, that payments of principal, interest and other amounts insured may not be accelerated by the holder of the obligation. Amounts paid by the Company therefore are typically in accordance with the obligation s original payment schedule or, at the Company s option, may be on an accelerated basis. CDS may provide for acceleration of amounts due upon the occurrence of certain credit events, subject to single-risk limits specified in the insurance laws of the State of New York (the New York Insurance Law). These constraints prohibit or limit acceleration of certain claims according to Article 69 of the New York Insurance Law and serve to reduce the Company s liquidity requirements.

Payments made in settlement of the Company s obligations arising from its insured portfolio may, and often do, vary significantly from year-to-year, depending primarily on the frequency and severity of payment defaults and whether the Company chooses to accelerate its payment obligations in order to mitigate future losses.

Claims Paid

	Six Months 2011	Six Months 2010

	(in millions)			
Claims paid	$	559.5	$	581.1
R&W recoveries		(902.4)		(64.2)
Claims paid (recovered), net(1)	$	(342.9)	$	516.9

(1) Includes $12.2 million and $58.9 million of claims paid under financial guaranty contracts on transactions where the VIE is consolidated for Six Months 2011 and 2010, respectively.

The terms of the Company s CDS contracts generally are modified from standard CDS contract forms approved by ISDA in order to provide for payments on a scheduled basis and to replicate the terms of a traditional financial guaranty insurance policy. Some contracts the Company enters into as the credit protection seller, however, utilize standard ISDA settlement mechanics of cash settlement (i.e., a process to value the loss of market value of a reference obligation) or physical settlement (i.e., delivery of the reference obligation against payment of principal by

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the protection seller) in the event of a credit event, as defined in the relevant contract. Cash settlement or physical settlement generally requires the payment of a larger amount, prior to the maturity of the reference obligation, than would settlement on a pay-as-you-go basis, under which the Company would be required to pay scheduled interest shortfalls during the term of the reference obligation and scheduled principal shortfall only at the final maturity of the reference obligation. The Company s CDS contracts also generally provide that if events of default or termination events specified in the CDS documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate the CDS contract prior to maturity. The Company may be required to make a termination payment to its swap counterparty upon such termination. See also Ratings Sensitivity in Financial Guaranty Direct Business.

Potential acceleration of claims with respect to CDS obligations occur with funded CDOs and synthetic CDOs, as described below:

- *Funded CDOs:* The Company has credit exposure to the senior tranches of funded corporate CDOs. The senior tranches are typically rated triple-A at inception. While the majority of these exposures obligate the Company to pay only shortfalls in scheduled interest and principal at final maturity, in a limited number of cases the Company has agreed to physical settlement following a credit event. In these limited circumstances, the Company has adhered to internal limits within applicable statutory single risk constraints. In these transactions, the credit events giving rise to a payment obligation are (a) the bankruptcy of the special purpose issuer or (b) the failure by the issuer to make a scheduled payment of interest or principal pursuant to the referenced senior debt security.

- *Synthetic CDOs:* In the case of pooled corporate synthetic CDOs, where the Company s credit exposure was typically set at super senior levels at inception, the Company is exposed to credit losses of a synthetic pool of corporate obligors following the exhaustion of a deductible. In these transactions, losses are typically calculated using ISDA cash settlement mechanics. As a result, the Company s exposures to the individual corporate obligors within any synthetic transaction are constrained by the New York Insurance Law single risk limits. In these transactions, the credit events giving rise to a payment obligation are generally (a) the reference entity s bankruptcy; (b) failure by the reference entity to pay its debt obligations; and (c) in certain transactions, the restructuring of the reference entity s debt obligations. The Company generally would not be required to make a payment until aggregate credit losses exceed the designated deductible threshold and only as each incremental default occurs. Once the deductible is exhausted, each further credit event would give rise to cash settlements.

Pooled Corporate CDS

	As of June 30, 2011		As of December 31, 2010	
	Net Par Outstanding	%	Net Par Outstanding	%
	(dollars in millions)			
Funded CDOs	$ 50,449	70%	$ 56,779	71%
Synthetic CDOs	22,030	30	23,154	29
Total pooled corporate CDS	$ 72,479	100%	$ 79,933	100%

Insurance Company Regulatory Restrictions

The insurance company subsidiaries ability to pay dividends depends, among other things, upon their financial condition, results of operations, cash requirements and compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their states of domicile. Dividends paid by a U.S. company to a Bermuda holding company presently are subject to a 30%

withholding tax.

Under Maryland s insurance law, AGC may pay dividends out of earned surplus in any twelve-month period in an aggregate amount not exceeding the lesser of (a) 10% of policyholders surplus or (b) net investment income at the preceding December 31 (including net investment income that has not already been paid out as dividends for the three calendar years prior to the preceding calendar year) without prior approval of the Maryland

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Commissioner of Insurance. As of June 30, 2011, the amount available for distribution from AGC during 2011 with notice to, but without prior approval of, the Maryland Commissioner was approximately $106.6 million.

Under the New York Insurance Law, AGM may pay dividends out of earned surplus, provided that, together with all dividends declared or distributed by AGM during the preceding 12 months, the dividends do not exceed the lesser of (a) 10% of policyholders surplus as of its last statement filed with the Superintendent of Insurance of the State of New York (the New York Superintendent) or (b) adjusted net investment income (net investment income at the preceding December 31 plus net investment income that has not already been paid out as dividends for the three calendar years prior to the preceding calendar year) during this period. Based on AGM s statutory statements for 2010, the maximum amount available for payment of dividends by AGM without regulatory approval over the 12 months following June 30, 2011 was approximately $130.4 million. However, in connection with the acquisition of AGMH on July 1, 2009 (AGMH Acquisition), the Company has committed to the New York Insurance Department that AGM will not pay any dividends for a period of two years from the date of the AGMH Acquisition without the written approval of the New York Insurance Department.

The amount available at AG Re to pay dividends or make a distribution of contributed surplus in Second Quarter 2011 in compliance with Bermuda law is $1,150 million. However, any distribution that results in a reduction of 15% or more of AG Re s total statutory capital, as set out in its previous years financial statements, would require the prior approval of the Bermuda Monetary Authority. Dividends are limited by requirements that the subject company must at all times (i) maintain the minimum solvency margin required under the Insurance Act of 1978 and (ii) have relevant assets in an amount at least equal to 75% of relevant liabilities, both as defined under the Insurance Act of 1978. AG Re, as a Class 3B insurer, is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year s statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet the required margins.

Cash Flows

Cash Flow Summary

	Six Months	
	2011	**2010**
	(in millions)	
	(restated)	**(restated)**
Net cash flows provided by (used in) operating activities	$ 631.9	$ (217.5)
Net cash flows provided by (used in) investing activities	44.8	577.4
Net cash flows provided by (used in) financing activities	(622.8)	(299.6)
Effect of exchange rate changes	3.2	(3.1)
Cash at beginning of period	108.4	44.1
Total cash at the end of the period	$ 165.5	$ 101.3

Operating cash flows in Six Months 2011 and Six Months 2010 include cash flows from FG VIEs. Excluding consolidated FG VIEs, the increase in operating cash flows was mainly due to the cash proceeds received from Bank of America Agreement.

Investing activities were primarily net sales (purchases) of fixed maturity and short-term investment securities. Investing cash flows in Six Months 2011 and 2010 include $424.0 million inflow and $217.3 million inflow for FG VIEs, respectively.

Financing activities consisted primarily of paydowns of FG VIEs. Financing cash flows in Six Months 2011 and 2010 include $593.3 million outflow and $259.4 million outflow for FG VIEs, respectively.

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Commitments and Contingencies

Leases

AGL and its subsidiaries are party to various lease agreements. Future cash payments associated with contractual obligations pursuant to operating leases for office space have not materially changed since December 31, 2010.

Long-Term Debt Obligations

The principal and carrying values of the Company s long-term debt issued by AGUS and AGMH were as follows:

Principal and Carrying Amounts of Debt

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

(1) AGMH principal amounts vary from carrying amounts due primarily to acquisition method fair value adjustments at the Acquisition Date, which are accreted or amortized into interest expense over the remaining terms of these obligations.

AGL fully and unconditionally guarantees the following debt obligations issued by AGUS: (1) 7.0% Senior Notes and (2) 8.50% Senior Notes. AGL also fully and unconditionally guarantees the following AGMH debt obligations: (1) 67/8% Quarterly Income Bonds Securities (QUIBS), (2) 6.25% Notes and (3) 5.60% Notes. In addition, AGL guarantees, on a junior subordinated basis, AGUS s Series A, Enhanced Junior

Subordinated Debentures and the $300 million of AGMH s outstanding Junior Subordinated Debentures.

Debt Issued by AGUS

7.0% Senior Notes. On May 18, 2004, AGUS issued $200.0 million of 7.0% senior notes due 2034 (7.0% Senior Notes) for net proceeds of $197.3 million. Although the coupon on the Senior Notes is 7.0%, the effective rate is approximately 6.4%, taking into account the effect of a cash flow hedge executed by the Company in March 2004.

8.50% Senior Notes. On June 24, 2009, AGL issued 3,450,000 equity units for net proceeds of approximately $166.8 million in a registered public offering. The net proceeds of the offering were used to pay a portion of the consideration for the AGMH Acquisition. Each equity unit consists of (i) a forward purchase contract and (ii) a 5% undivided beneficial ownership interest in $1,000 principal amount 8.50% senior notes due 2014 issued by AGUS. Under the purchase contract, holders are required to purchase, and AGL is required to issue,

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between 3.8685 and 4.5455 of AGL common shares for $50 no later than June 1, 2012. The actual number of shares purchased will be based on the average closing price of the common shares over a 20-trading day period ending three trading days prior to June 1, 2012. More specifically, if the average closing price per share for the relevant period (the Applicable Market Value) is equal to or exceeds $12.93, the settlement rate will be 3.8685 shares. If the Applicable Market Value is less than or equal to $11.00, the settlement rate will be 4.5455 shares, and if it is between $11.00 and $12.93, the settlement rate will be equal to the quotient of $50.00 and the Applicable Market Value. The notes are pledged by the holders of the equity units to a collateral agent to secure their obligations under the purchase contracts. Interest on the notes is payable, initially, quarterly at the rate of 8.50% per year. The notes are subject to a mandatory remarketing between December 1, 2011 and May 1, 2012 (or, if not remarketed during such period, during a designated three business day period in May 2012). In the remarketing, the interest rate on the notes will be reset and certain other terms of the notes may be modified, including to extend the maturity date, to change the redemption rights (as long as there will be at least two years between the reset date and any new redemption date) and to add interest deferral provisions. If the notes are not successfully remarketed, the interest rate on the notes will not be reset and holders of all notes will have the right to put their notes to the Company on the purchase contract settlement date at a put price equal to $1,000 per note ($50 per equity unit) plus accrued and unpaid interest. The notes are redeemable at AGUS option, in whole but not in part, upon the occurrence and continuation of certain events at any time prior to the earlier of the date of a successful remarketing and the purchase contract settlement date. The aggregate redemption amount for the notes is equal to an amount that would permit the collateral agent to purchase a portfolio of U.S. Treasury securities sufficient to pay the principal amount of the notes and all scheduled interest payment dates that occur after the special event redemption date to, and including the purchase contract settlement date; provided that the aggregate redemption amount may not be less than the principal amount of the notes. Other than in connection with certain specified tax or accounting related events, the notes may not be redeemed by AGUS prior to June 1, 2014.

Series A Enhanced Junior Subordinated Debentures. On December 20, 2006, AGUS issued $150.0 million of the Debentures due 2066 for net proceeds of $149.7 million. 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 three month London Interbank Offered Rate (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 10 years. Any unpaid interest bears interest at the then applicable rate. AGUS may not defer interest past the maturity date.

Debt Issued by AGMH

67/8% QUIBS. On December 19, 2001, AGMH issued $100.0 million face amount of 67/8% QUIBS due December 15, 2101, which are callable without premium or penalty.

6.25% Notes. On November 26, 2002, AGMH issued $230.0 million face amount of 6.25% Notes due November 1, 2102, which are callable without premium or penalty in whole or in part.

5.60% Notes. On July 31, 2003, AGMH issued $100.0 million face amount of 5.60% Notes due July 15, 2103, which are callable without premium or penalty in whole or in part.

Junior Subordinated Debentures. On November 22, 2006, AGMH issued $300.0 million face amount of Junior Subordinated Debentures with a scheduled maturity date of December 15, 2036 and a final repayment date of December 15, 2066. The final repayment date of December 15, 2066 may be automatically extended up to four times in five-year increments provided certain conditions are met. The debentures are redeemable, in whole or in part, at any time prior to December 15, 2036 at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price. Interest on the debentures will accrue from November 22, 2006 to December 15, 2036 at the annual rate of 6.40%. If any amount of the debentures remains outstanding after December 15, 2036, then the principal amount of the outstanding debentures will bear interest at a floating interest rate equal to one-month LIBOR plus 2.215% until repaid. AGMH may elect at one or more times to defer payment of interest on the debentures for one or more consecutive interest periods that do not exceed 10 years. In connection with the completion of this offering, AGMH entered into a replacement capital covenant for the benefit of persons that buy, hold or sell a specified series of AGMH long-term indebtedness ranking senior to the debentures. Under the covenant, the debentures will not be repaid, redeemed, repurchased or defeased by AGMH or any of its subsidiaries on or before the date that is 20 years prior to the final repayment date, except to the extent that

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AGMH has received proceeds from the sale of replacement capital securities. The proceeds from this offering were used to pay a dividend to the shareholders of AGMH.

Notes Payable represents debt, issued by special purpose entities consolidated by AGM, to the Financial Products Companies transferred to Dexia Holdings prior to the AGMH Acquisition. The funds borrowed were used to finance the purchase of the underlying obligations of AGM-insured obligations which had breached triggers allowing AGM to exercise its right to accelerate payment of a claim in order to mitigate loss. The assets purchased are classified as assets acquired in refinancing transactions and recorded in other invested assets . The term of the notes payable matches the terms of the assets. On the Acquisition Date, the fair value of this note was $164.4 million, representing a premium of $9.5 million, which is amortized over the term of the debt.

Recourse Credit Facilities

2006 Credit Facility

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

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, AGC guaranteed the obligations of AGUK under the facility and AGL guaranteed the obligations of AG Re and AGRO under the facility and agreed that, if the Company consolidated assets (as defined in the related credit agreement) of AGC and its subsidiaries were to fall below $1.2 billion, it would, within 15 days, guarantee the obligations of AGC and AGUK under the facility. At the same time, Assured Guaranty Overseas US Holdings Inc. guaranteed the obligations of AGL, AG Re and AGRO under the facility, and each of AG Re and AGRO guaranteed the other as well as AGL.

The 2006 Credit Facility s financial covenants require that AGL:

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

(b) maintain a maximum debt-to-capital ratio of 30%.

In addition, the 2006 Credit Facility requires that AGC maintain qualified statutory capital of at least 75% of its statutory capital as of the fiscal quarter ended June 30, 2006. Furthermore, the 2006 Credit Facility contains restrictions on AGL and its subsidiaries, including, among other things, in respect of their ability to incur debt, permit liens, become liable in respect of guaranties, make loans or investments, pay dividends or make distributions, dissolve or become party to a merger, consolidation or acquisition, dispose of assets or enter into affiliate transactions. Most of these restrictions are subject to certain minimum thresholds and exceptions. The 2006 Credit Facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, bankruptcy or insolvency proceedings, change of control and cross-default to other debt agreements. A default by one borrower will give rise to a right of the lenders to terminate the facility and accelerate all amounts then outstanding. As of June 30, 2011 and December 31, 2010, Assured Guaranty was in compliance with all of the financial covenants.

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As of June 30, 2011, no amounts were outstanding under this facility nor have there been any borrowings during the life of the 2006 Credit Facility.

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

The 2006 Credit Facility expired on November 7, 2011. The Company has determined it has sufficient liquidity and decided not to enter into a new revolving credit facility at this time.

2009 Strip Coverage Facility

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

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

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

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

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

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

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

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

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

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

Under the Strip Coverage Facility, AGM covenants to deliver GAAP-compliant quarterly financial statements for itself and its consolidated subsidiaries within 60 days after the end of each fiscal quarter or 115 days after the end of the fiscal year. Neither the failure to deliver financial statements on time nor the failure to deliver GAAP-compliant financials is an event of default, but would be a covenant breach that, until cured, would prevent AGM from borrowing under the Strip Coverage Facility. In addition, the failure to deliver financial statements that present fairly the financial condition of AGM and its consolidated subsidiaries is a breach of representation and warranty that would prevent AGM from borrowing under the Strip Coverage Facility. However, if such financial statements are restated so as to make them present fairly the financial condition of AGM and its consolidated subsidiaries and AGM delivers such restated financial statements to Dexia, then AGM could resume borrowing. The Company anticipates that AGM would be able to borrow again by December 2011 and does not anticipate that AGM would have any need to borrow under the Strip Coverage Facility prior to that time.

Limited Recourse Credit Facilities

AG Re Credit Facility

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

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

AGM Credit Facility

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

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

Committed Capital Securities

The AGC CCS Securities

On April 8, 2005, AGC entered into separate agreements (the Put Agreements) with four custodial trusts (each, a Custodial Trust) pursuant to which AGC may, at its option, cause each of the Custodial Trusts to purchase up to $50 million of perpetual preferred stock of AGC (the AGC Preferred Stock).

Each of the Custodial Trusts is a special purpose Delaware statutory trust formed for the purpose of (a) issuing a series of flex AGC CCS Securities representing undivided beneficial interests in the assets of the Custodial Trust; (b) investing the proceeds from the issuance of the AGC 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), and (c) entering into the Put Agreement and related agreements. The Custodial Trusts are not consolidated in Assured Guaranty s financial statements.

Income distributions on the AGC CCS Securities were equal to an annualized rate of one-month LIBOR plus 110 basis points for all periods ending on or before April 8, 2008. For periods after that date, distributions on the AGC CCS Securities were determined pursuant to an auction process. However, on April 7, 2008 the auction process failed. As a result, the annualized rate on the AGC CCS Securities increased to one-month LIBOR plus 250 basis points. When a Custodial Trust holds Eligible Assets, the relevant distribution period is 28 days; when a Custodial Trust holds AGC Preferred Stock, however, the distribution period is 49 days.

Put Agreements. Pursuant to the Put Agreements, AGC pays a monthly put premium to each Custodial Trust except during any periods when the relevant Custodial Trust holds the AGC Preferred Stock that has been put to it or upon termination of the Put Agreement. This put premium equals the product of:

- the applicable distribution rate on the AGC CCS Securities for the relevant period less the excess of (a) the Custodial Trust s stated return on the Eligible Assets for the period (expressed as an annual rate) over (b) the expenses of the Custodial Trust for the period (expressed as an annual rate);

- the aggregate face amount of the AGC CCS Securities of the Custodial Trust outstanding on the date the put premium is calculated; and

- the number of days in the distribution period divided by 360.

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Upon AGC s exercise of its put option, the relevant Custodial Trust will liquidate its portfolio of Eligible Assets and purchase the AGC Preferred Stock. The Custodial Trust will then hold the AGC Preferred Stock until the earlier of the redemption of the AGC Preferred Stock and the liquidation or dissolution of the Custodial Trust.

The Put Agreements have no scheduled termination date or maturity. However, each Put Agreement will terminate if (subject to certain grace periods) (1) AGC fails to pay the put premium as required, (2) AGC elects to have the AGC Preferred Stock bear a fixed rate dividend (a Fixed Rate Distribution Event), (3) AGC fails to pay dividends on the AGC Preferred Stock, or the Custodial Trust s fees and expenses for the related period, (4) AGC fails to pay the redemption price of the AGC Preferred Stock, (5) the face amount of a Custodial Trust s CCS Securities is less than $20 million, (6) AGC terminates 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 in turn be distributed to the holders of the AGC CCS 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 June 30, 2011 the put option had not been exercised.

AGC Preferred Stock. The dividend rate on the AGC Preferred Stock is determined pursuant to the same auction process applicable to distributions on the AGC CCS Securities. However, if a Fixed Rate Distribution Event occurs, the distribution rate on the AGC Preferred Stock will be the fixed rate equivalent of one-month LIBOR plus 2.50%. For these purposes, a Fixed Rate Distribution Event will occur when AGC Preferred Stock is outstanding, if (subject to certain grace periods): (1) AGC elects to have the AGC Preferred Stock bear dividends at a fixed rate, (2) AGC does not pay dividends on the AGC Preferred Stock for the related distribution period or (3) AGC does pay the fees and expenses of the Custodial Trust for the related distribution period. During the period in which AGC Preferred Stock is held by a Custodial Trust and unless a Fixed Rate Distribution Event has occurred, dividends will be paid every 49 days. Following a Fixed Rate Distribution Event, dividends will be paid every 90 days.

Unless redeemed by AGC, the AGC Preferred Stock will be perpetual. 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 the Custodial Trust the liquidation preference amount of the AGC Preferred Stock plus any accrued but unpaid dividends 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 AGC will pay the put premium to the Custodial Trust. If the AGC Preferred Stock was distributed to holders of AGC CCS Securities during any Flexed Rate Period then AGC may not redeem the AGC Preferred Stock until the end of the period.

Following exercise of the put option, AGC Preferred Stock held by a Custodial Trust in whole or in part on any distribution payment date by paying the Custodial Trust the liquidation preference amount of the AGC Preferred Stock to be redeemed plus any accrued but unpaid dividends 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 (with a corresponding reduction in the aggregate face amount of AGC CCS Securities). However, 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 the Custodial Trust immediately following such redemption would be less than $20 million. If a Fixed Rate Distribution Event occurs, AGC may not redeem the AGC Preferred Stock for two years from the date of the Fixed Rate Distribution Event.

The AGM CPS Securities

In June 2003, $200.0 million of AGM CPS Securities, money market preferred trust securities, were issued by trusts created for the primary purpose of issuing the AGM CPS Securities, investing the proceeds in high-quality commercial paper and selling put options to AGM, allowing AGM to issue the trusts noncumulative redeemable perpetual preferred stock (the AGM Preferred Stock) of AGM in exchange for cash. There are four trusts each with an initial aggregate face amount of $50 million. These trusts hold auctions every 28 days at which time investors submit bid orders to purchase AGM CPS Securities. If AGM were to exercise a put option, the applicable trust would transfer the portion of the proceeds attributable to principal received upon maturity of its assets, net of expenses, to AGM in exchange for Preferred Stock of AGM. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and

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expenses of the trust). If any auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of 200 basis points above LIBOR for the next succeeding distribution period. Beginning in August 2007, the AGM CPS Securities required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock. The trusts provide AGM access to new capital at its sole discretion through the exercise of the put options. The Company does not consider itself to be the primary beneficiary of the trusts because it does not retain the majority of the residual benefits or expected losses. As of June 30, 2011 the put option had not been exercised.

Investment Portfolio

The Company s principal objectives in managing its investment portfolio are to preserve the highest possible ratings for each operating company; to manage investment risk within the context of the underlying portfolio of insurance risk; to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and to maximize after-tax net investment income.

Fixed Maturity Securities and Short-Term Investments

The Company s fixed maturity securities and short-term investments have duration of 4.9 years as of June 30, 2011, compared with 5.0 years as of December 31, 2010. The Company s fixed maturity securities are designated as available-for-sale. Fixed maturity securities are reported at their fair value, and the change in fair value is reported as part of AOCI except for the credit component of the unrealized loss for securities deemed to be OTTI. The Company reviews the investment portfolio for possible impairment losses. If management believes the decline in fair value is other-than-temporary, the Company writes down the carrying value of the investment and records a realized loss in the consolidated statements of operations for an amount equal to the credit component of the unrealized loss. For additional information, see Investments in Note 9, of the Financial Statements.

Fair value of fixed maturity securities is based upon market prices provided by either independent pricing services or, when such prices are not available, by reference to broker or underwriter bid indications. The Company s fixed maturity and short term portfolio is primarily invested in publicly traded securities. For more information about the Investment Portfolio and a detailed description of the Company s valuation of investments see Investments in Note 9, of the Financial Statements.

Fixed Maturity Securities and Short-Term Investments

by Security Type

	As of June 30, 2011			
	Amortized Cost (restated)	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value (restated)
		(in millions)		
Fixed maturity securities:				
U.S. government and agencies	$ 926.1	$ 49.4	$ (0.2)	$ 975.3

Obligations of state and political subdivisions		5,038.7		162.3		(16.8)		5,184.2
Corporate securities		1,045.7		28.7		(8.9)		1,065.5
Mortgage-backed securities(1):								
RMBS		1,208.8		59.9		(51.2)		1,217.5
CMBS		498.8		17.7		(0.4)		516.1
Asset-backed securities		540.4		26.0		(5.5)		560.9
Foreign government securities		337.6		8.1		(1.0)		344.7
Total fixed maturity securities		9,596.1		352.1		(84.0)		9,864.2
Short-term investments		1,105.6						1,105.6
Total fixed maturity and short-term investments	$	10,701.7	$	352.1	$	(84.0)	$	10,969.8

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	As of December 31, 2010			
	Amortized Cost (restated)	Gross Unrealized Gain (restated)	Gross Unrealized Loss (restated)	Estimated Fair Value (restated)
	(in millions)			
Fixed maturity securities:				
U.S. government and agencies	$ 1,000.3	$ 48.3	$ (0.4)	$ 1,048.2
Obligations of state and political subdivisions	4,922.0	99.9	(62.0)	4,959.9
Corporate securities	980.1	25.2	(12.8)	992.5
Mortgage-backed securities(1):				
RMBS	1,158.9	56.5	(44.3)	1,171.1
CMBS	365.7	14.8	(1.4)	379.1
Asset-backed securities	498.2	9.9	(5.2)	502.9
Foreign government securities	349.5	5.3	(6.2)	348.6
Total fixed maturity securities	9,274.7	259.9	(132.3)	9,402.3
Short-term investments	1,055.3	0.3		1,055.6
Total fixed maturity and short-term investments	$ 10,330.0	$ 260.2	$ (132.3)	$ 10,457.9

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

The following tables summarize, for all fixed maturity securities in an unrealized loss position as of June 30, 2011 and December 31, 2010, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

Fixed Maturity Securities

Gross Unrealized Loss by Length of Time

	As of June 30, 2011					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
U.S. government and agencies	$ 54.4	$ (0.2)	$	$	$ 54.4	$ (0.2)
Obligations of state and political subdivisions	851.4	(16.0)	9.5	(0.8)	860.9	(16.8)
Corporate securities	355.8	(8.9)			355.8	(8.9)
Mortgage-backed securities:						
RMBS	218.4	(27.9)	10.1	(23.3)	228.5	(51.2)
CMBS	72.3	(0.4)			72.3	(0.4)
Asset-backed securities	43.7	(5.5)	2.2	(0.0)	45.9	(5.5)
Foreign government securities	80.1	(1.0)			80.1	(1.0)
Total	$ 1,676.1	$ (59.9)	$ 21.8	$ (24.1)	$ 1,697.9	$ (84.0)
Number of securities		264		13		277
Number of securities with OTTI		5		3		8

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

The decrease in gross unrealized losses in Second Quarter 2011 was primarily due to the decrease of unrealized losses attributable to municipal securities of $45.2 million. The decrease in gross unrealized losses during the Six Months 2011 was due to the decrease in U.S. Treasury yields during the second quarter of 2011. Of the securities in an unrealized loss position for 12 months or more as of June 30, 2011, five securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of June 30, 2011 was $23.3 million. The unrealized loss is yield-related and not specific to individual issuer credit. The Company has determined that these securities were not other-than-temporarily- impaired as of June 30, 2011.

As of June 30, 2011, based on fair value, approximately 90% of the Company s investments were long-term fixed maturity securities, and the Company s portfolio, excluding other invested assets, had an average duration of 4.9 years, compared with 90% and 5.0 years as of December 31, 2010. Changes in interest rates affect the value of the Company s 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 Company s portfolio of fixed maturity securities consists primarily of high-quality, liquid instruments. The Company continues to receive sufficient information to value its investments and has not had to modify its approach due to the current market conditions.

The amortized cost and estimated fair value of the Company s available-for-sale fixed maturity securities as of June 30, 2011, 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.

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Distribution of Fixed Maturity Securities by Contractual Maturity

	As of June 30, 2011	
	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	$ 279.4	$ 281.2
Due after one year through five years	1,636.1	1,685.5
Due after five years through ten years	2,515.4	2,626.0
Due after ten years	3,457.6	3,537.9
Mortgage-backed securities:		
RMBS	1,208.8	1,217.5
CMBS	498.8	516.1
Total	$ 9,596.1	$ 9,864.2

The following table summarizes the ratings distributions of the Company s investment portfolio as of June 30, 2011 and December 31, 2010. Ratings reflect the lower of the Moody s and S&P classifications, except for bonds purchased for loss mitigation or risk management strategies, which use Assured Guaranty s internal ratings classifications.

Distribution of Fixed Maturity Securities by Rating

Rating	As of June 30, 2011	As of December 31, 2010 (restated)
AAA	44.0%	43.2%
AA	36.4	36.1
A	15.4	15.0
BBB	0.4	1.8
BIG(1)	1.8	2.0
Not rated(1)	2.0	1.9
Total	100.0%	100.0%

(1) Include securities purchased or obtained as part of loss mitigation or other risk management strategies of $653.5 million in par with carrying value of $361.5 million or 3.7% of fixed maturity securities as of June 30, 2011 and of $748.7 million in par with carrying value of $309.1 million or 3.3% of fixed maturity securities as of December 31, 2010.

As of June 30, 2011 and December 31, 2010, the Company s investment portfolio contained 19 and 37 securities, respectively, that were not rated or rated BIG. As of June 30, 2011 and December 31, 2010, the weighted average credit quality of the Company s entire investment portfolio was AA.

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

As of June 30, 2011, $1,481.7 million of the Company s fixed maturity securities were guaranteed by third parties. The following table presents the fair value of securities with third party guaranties by underlying credit rating:

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Rating(1)		As of June 30, 2011 (in millions)
AAA	$	2.3
AA		840.2
A		629.9
BBB		
BIG		7.5
Not Available		1.8
Total	$	1,481.7

(1) Ratings are lower of Moody s and S&P.

Distribution by Third Party Guarantor

Guarantor		As of June 30, 2011 (in millions)
MBIA Insurance Corporation	$	828.8
Ambac Assurance Corporation		598.5
Other		54.4
Total	$	1,481.7

Short-term investments include securities with maturity dates equal to or less than one year at the time of purchase. The Company s short-term investments consist of money market funds, discounted notes and certain time deposits for foreign cash portfolios. Short-term investments are reported at fair value.

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

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

Other Invested Assets

Assets Acquired in Refinancing Transactions

The Company has rights under certain of its financial guaranty insurance policies and indentures that allow it to accelerate the insured notes and pay claims under its insurance policies upon the occurrence of predefined events of default. To mitigate financial guaranty insurance losses, the Company may elect to purchase the outstanding insured obligation or its underlying collateral. Generally, refinancing vehicles reimburse AGM in whole for its claims payments in exchange for assignments of certain of AGM s rights against the trusts. The refinancing vehicles obtained their funds from the proceeds of AGM-insured guaranteed investment contracts (GICs) issued in the ordinary course of business by the Financial Products Companies (See Liquidity Arrangements with respect to AGMH s former Financial Products Business The GIC Business below). The refinancing vehicles are consolidated with the Company.

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Investment in Portfolio Funding Company LLC I

In the third quarter of 2010, as part of loss mitigation efforts under a CDS contract insured by the Company, the Company acquired a 50% interest in Portfolio Funding Company LLC I (PFC). PFC owns the distribution rights of a motion picture film library. The Company accounts for its interest in PFC as an equity investment. The Company s equity earnings in PFC are included in net change in fair value of credit derivatives, as these proceeds are used to offset the Company s payments under its CDS contract.

Liquidity Arrangements with respect to AGMH s former Financial Products Business

AGMH s former financial products segment had been in the business of borrowing funds through the issuance of GICs and medium term notes and reinvesting the proceeds in investments that met AGMH s investment criteria. The financial products business also included the equity payment undertaking agreement portion of the leveraged lease business, as described further below in Strip Coverage Facility for the Leveraged Lease Business.

The GIC Business

In connection with the AGMH Acquisition by AGUS, Dexia SA and certain of its affiliates have entered into a number of agreements to protect the Company and AGM from ongoing risk related to GICs issued by, and the GIC business conducted by, the Financial Products Companies, former subsidiaries of AGMH. These agreements include a guaranty jointly and severally issued by Dexia SA and DCL to AGM that guarantees the payment obligations of AGM under its policies related to the GIC business and an indemnification agreement between AGM, Dexia SA and DCL that protects AGM from other losses arising out of or as a result of the GIC business, as well as the liquidity facilities and the swap agreements described below.

Pursuant to liquidity commitments, Dexia affiliates assume the risk of loss and support the payment obligations of FSA Asset Management LLC (FSAM) and the three former AGMH subsidiaries that issued GICs (collectively, the GIC Issuers) in respect of the GICs and the GIC business. The term of the commitments will generally extend until the GICs have been paid in full. The liquidity commitments comprise (i) an amended and restated revolving credit agreement (the Liquidity Facility) pursuant to which DCL and Dexia Bank Belgium SA commit to provide funds to FSAM in an amount up to $8.0 billion (approximately $2.2 billion of which was outstanding as of August 1, 2011), and (ii) a master repurchase agreement (the Repurchase Facility Agreement and, together with the Liquidity Facility, the Guaranteed Liquidity Facilities) pursuant to which DCL will provide up to $3.5 billion of funds in exchange for the transfer by FSAM to DCL of FSAM securities that are not eligible to satisfy collateralization obligations of the GIC Issuers under the GICs. As of August 1, 2011, no amounts were outstanding under the Repurchase Facility Agreement.

On June 30, 2009, to support the payment obligations of FSAM and the GIC Issuers, each of Dexia SA and DCL entered into two separate ISDA Master Agreements, each with its associated schedule, confirmation and credit support annex (the Guaranteed Put Contract and the Non-Guaranteed Put Contract respectively, and collectively, the Dexia Put Contracts), pursuant to which Dexia SA and DCL jointly and severally guarantee the scheduled payments of interest and principal in relation to each FSAM asset, as well as any failure of Dexia to provide liquidity or liquid collateral under the Guaranteed Liquidity Facilities. The Dexia Put Contracts reference separate portfolios of FSAM assets to which assets owned by FSAM as of September 30, 2008 were allocated, with the less liquid assets and the assets with the lowest mark-to-market values generally being allocated to the Guaranteed Put Contract.

As of August 1, 2011, the aggregate outstanding principal balance of FSAM assets covered by the Guaranteed Put Contract was equal to approximately $582 million (as compared with $9.5 billion as of March 31, 2011) and the aggregate principal balance of FSAM assets covered by the Non-Guaranteed Put Contract was equal to approximately $7.6 billion (as compared with $4.1 billion as of March 31, 2011). The aggregate accreted GIC balance as of August 1, 2011 was approximately $5.8 billion. On May 27, 2011, Dexia issued a press release announcing the acceleration of its asset divestment program as part of the financial restructuring of its group. Since such announcement, through August 1, 2011, (i) Dexia has from time to time exercised its par call option under the Guaranteed Put Contract with respect to various assets covered thereby having, as of the respective dates of such calls, an aggregate outstanding principal balance of $8.8 billion, thus transferring to FSAM an equal amount of cash, and (ii) FSAM has applied a portion of such cash proceeds to reduce the outstanding principal amount of its borrowings under the Guaranteed Liquidity Facilities (consisting solely of borrowings under the Liquidity Facility) by approximately $5.0 billion (to approximately $2.2 billion at August 1, 2011), with the balance used to purchase permitted investments in accordance with the transaction documents entered into at the time of the AGMH Acquisition. The exercise of the call options does not limit the obligation to post collateral on the Expected First Collateral Posting Date described below.

Separately, pursuant to the Dexia Put Contracts, FSAM may put an amount of FSAM assets to Dexia SA and DCL:

- in exchange for funds in an amount generally equal to the lesser of:

(a) the outstanding principal balance of the GICs and

(b) the shortfall related to (i) the failure of a Dexia party to provide liquidity or collateral as required under the Guaranteed Liquidity Facilities (a Liquidity Default Trigger) or (ii) the failure by either Dexia SA or DCL to transfer the required amount of eligible collateral under the credit support annex of the applicable Dexia Put Contract (a Collateral Default Trigger);

- in exchange for funds in an amount equal to the outstanding principal amount of an FSAM asset with respect to which any of the following events have occurred (an Asset Default Trigger):

(a) the issuer of such FSAM asset fails to pay the full amount of the expected interest when due or to pay the full amount of the expected principal when due (following expiration of any grace period) or within five business days following the scheduled due date,

(b) a writedown or applied loss results in a reduction of the outstanding principal amount, or

(c) the attribution of a principal deficiency or realized loss results in a reduction or subordination of the current interest payable on such FSAM asset;

provided, that Dexia SA and DCL have the right to elect to pay only the difference between the amount of the expected principal or interest payment and the amount of the actual principal or interest payment, in each case, as such amounts come due, rather than paying an amount equal to the outstanding principal amount of applicable FSAM asset; and/or

- in exchange for funds in an amount equal to the lesser of:

(a) the aggregate outstanding principal amount of all FSAM assets in the relevant portfolio and

(b) the aggregate outstanding principal balance of all of the GICs, upon the occurrence of an insolvency event with respect to Dexia SA as set forth in the Dexia Put Contracts (a Bankruptcy Trigger).

The Financial Products Companies obligations are currently, and at all times in the future required to be, supported by eligible assets in an amount sufficient to allow the Financial Products Companies to meet their obligations. On September 29, 2011, the transaction documents required an analysis of the value of FSA Asset Management LLC (FSAM) assets versus the GIC obligations and other associated liabilities of the Financial Products Companies. On that day, the required amount of assets exceeded the liabilities, and therefore Dexia was not required to post additional collateral to support its protection arrangements. Assured Guaranty believes the assets owned by the Financial Products Companies are sufficient for them to meet their GIC obligations and other

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associated liabilities. However, Dexia is required to post additional collateral if there is any shortfall in assets as compared with liabilities in the future.

On June 30, 2009, the States of Belgium and France (the States) issued a guaranty to FSAM pursuant to which the States guarantee, severally but not jointly, Dexia s payment obligations under the Guaranteed Put Contract, subject to certain limitations set forth therein. The FSAM assets referenced in the Guaranteed Put Contract were all sold by October 2011 as part of an asset divestment program that Dexia announced in May 2011. As a result, the guaranty of the States has effectively terminated.

Despite the execution of such documentation, the Company remains subject to the risk that Dexia may not make payments or securities available (i) on a timely basis, which is referred to as liquidity risk, or (ii) at all, which is referred to as credit risk, because of the risk of default. Even if Dexia has sufficient assets to pay all amounts when due, concerns regarding Dexia s or such states financial condition or willingness to comply with its obligations could cause one or more rating agencies to view negatively the ability or willingness of Dexia to perform under the various agreements and could negatively affect the Company s ratings.

One situation in which AGM may be required to pay claims in respect of AGMH s former financial products business if Dexia does not comply with its obligations is if AGM is downgraded. Most of the GICs insured by AGM allow for the withdrawal of GIC funds in the event of a downgrade of AGM, unless the relevant GIC issuer posts collateral or otherwise enhances its credit. Most GICs insured by AGM allow for the termination of the GIC contract and a withdrawal of GIC funds in the event of a downgrade of AGM below a specified threshold, generally below A- by S&P or A3 by Moody s, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC provider must post eligible collateral along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. At June 30, 2011, a downgrade of AGM to below AA- by S&P and Aa3 by Moody s (i.e., A+ by S&P and A1 by Moody s) would result in withdrawal of $454 million of GIC funds and the need to post collateral on GICs with a balance of $4.7 billion. In the event of such a downgrade, assuming an average margin of 105%, the market value as of June 30, 2011 that the GIC issuers would be required to post in order to avoid withdrawal of any GIC funds would be $4.9 billion.

As of June 30, 2011, the market value of the assets of the Financial Products Companies exceeded the accreted value of their insured liabilities by approximately $1.2 billion (before any tax effects and including the aggregate net market value of the derivative portfolio of $114.7 million). In comparison, as of December 31, 2010, the market value of the assets exceeded the accreted value of the insured liabilities by approximately $2.3 billion (before any tax effects and including the aggregate net market value of the derivative portfolio of $123 million). If Dexia does not fulfill its contractual obligations, the Financial Products Companies may not have the financial ability to pay upon the withdrawal of GIC funds or post collateral or make other payments in respect of the GICs, thereby resulting in claims upon the AGM financial guaranty insurance policies. If AGM is required to pay a claim due to a failure of the Financial Products Companies to pay amounts in respect of the GICs, AGM is subject to the risk that the GICs will not be paid from funds received from Dexia before it is required to make payment under its financial guaranty policies or that it will not receive the guaranty payment at all.

The Medium Term Notes Business

In connection with the AGMH Acquisition, DCL agreed to fund, on behalf of AGM and Assured Guaranty (Bermuda) Ltd., 100% of all policy claims made under financial guaranty insurance policies issued by AGM and Assured Guaranty (Bermuda) in relation to the medium term notes issuance program of FSA Global Funding Limited. Such agreement is set out in a Separation Agreement, dated as of July 1, 2009, between DCL, AGM, Assured Guaranty (Bermuda), FSA Global Funding and Premier International Funding Co., and in a funding guaranty and a reimbursement guaranty that DCL issued for the benefit of AGM and Assured Guaranty (Bermuda). Under the funding guaranty, DCL guarantees to pay to or on behalf of AGM or Assured Guaranty (Bermuda) amounts equal to the payments required to be made under policies issued by AGM or Assured Guaranty (Bermuda) relating to the medium term notes business. Under the reimbursement guaranty, DCL guarantees to pay reimbursement amounts to AGM or Assured Guaranty (Bermuda) for payments they make following a claim for payment under an obligation insured by a policy they have issued. Notwithstanding DCL s obligation to fund 100%

of all policy claims under those policies, AGM and Assured Guaranty (Bermuda) have a separate obligation to remit to DCL a certain percentage (ranging from 0% to 25%) of those policy claims. AGM, the Company and related parties are also protected against losses arising out of or as a result of the medium term note business through an indemnification agreement with DCL.

Strip Coverage Facility for the Leveraged Lease Business

Under the Strip Coverage Facility entered into in connection with the AGMH Acquisition, Dexia Credit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on certain AGM strip policies, as described further under Commitments and Contingencies Recourse Credit Facilities 2009 Strip Coverage Facility under this Liquidity and Capital Resources section of Management s Discussion and Analysis of Financial Condition and Results of Operations. AGM may request advances under the Strip Coverage Facility without any explicit limit on the number of loan requests, provided that the aggregate principal amount of loans outstanding as of any date may not initially exceed $1 billion (the Commitment Amount). The Commitment Amount:

(a) may be reduced at the option of AGM without a premium or penalty; and

(b) will be reduced in the amounts and on the dates described in the Strip Coverage Facility either in connection with the scheduled amortization of the Commitment Amount or to $750 million if AGM s consolidated net worth as of June 30, 2014 is less than a specified consolidated net worth. As of June 30, 2011, the maximum commitment amount of the Strip Coverage Facility has amortized to $988.4 million.

As of June 30, 2011, no advances were outstanding under the Strip Coverage Facility.

Dexia Crédit Local (NY) s commitment to make advances under the Strip Coverage Facility is subject to the satisfaction by AGM of customary conditions precedent, including compliance with certain financial covenants, and will terminate at the earliest of (i) the occurrence of a change of control with respect to AGM, (ii) the reduction of the Commitment Amount to $0 and (iii) January 31, 2042. Additional restrictions on the ability of AGM to borrow under the Strip Coverage Facility as a result of the restatement of the Company s financial results as described in this Form 10-Q/A is described under Commitments and Contingencies Recourse Credit Facilities 2009 Strip Coverage Facility under this Liquidity and Capital Resources section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

In the Original Form 10-Q, AGL s management, with the participation of AGL s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of AGL s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on the evaluation of these controls and procedures required by paragraph (b) of Rules 13a-15 and 15d-5 under the Exchange Act, AGL s Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, AGL s disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by AGL (including its consolidated subsidiaries) in the reports that it files or submits under the Exchange Act.

AGL s Chief Executive Officer and Chief Financial Officer, in consultation with the Audit Committee, have concluded that the restatement errors related to intercompany eliminations between the Company s consolidated financial guaranty VIEs and the insurance company subsidiaries of Assured Guaranty, described in Note 2 to the Assured Guaranty financial statements under Part I, Financial Statements, resulted from a material weakness in Assured Guaranty s internal control over financial reporting as of June 30, 2011. As of June 30, 2011 the Company did not maintain effective controls over intercompany eliminations for consolidated financial guaranty variable interest entities. Specifically, effective controls were not in place to ensure the completeness of the intercompany eliminations and the accuracy of reconciliations which impacted the financial guaranty variable interest entities liabilities and the net change in financial guaranty variable interest entities. Accordingly, our management has determined that this control deficiency constitutes a material weakness. As a result of the material weakness, AGL s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were not, as of June 30, 2011, effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by AGL (including its consolidated subsidiaries) in the reports that it files or submits under the Exchange Act.

The financial statements included in this Form 10-Q/A were prepared with particular attention to the material weakness. The Company concluded that the financial statements included in this Form 10-Q/A fairly present, in all material respects, the financial condition, results of operations and cash flows as of and for the periods presented in accordance with U.S. generally accepted accounting principles.

The Company continually reviews its disclosure controls and procedures and makes changes, as necessary, to ensure the quality of its financial reporting. As detailed below, the Company implemented certain additional controls that it believes will remediate the material weakness that existed at June 30, 2011.

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Management s Plan for Remediation

Management and the Board of Directors are committed to remediation of the material weakness described in Note 2 to our consolidated financial statements as well as the continued improvement of the Company s overall system of internal control over financial reporting. Management believes the remediation measures described below will remediate the identified control deficiencies and strengthen the Company s internal control over financial reporting. As management continues to evaluate and works to enhance the internal control over financial reporting, it may be determined that additional measures must be taken to address control deficiencies or it may be determined that the Company needs to modify or otherwise adjust the remediation measures described below.

Subsequent to the period covered by the report, management has implemented measures to remediate the material weakness in internal control over financial reporting described above. Specifically, management implemented the following controls:

- Implemented additional quarterly reconciliations between the VIE accounts and the insurance and investment accounts where intercompany transactions occur; and

- Implemented an additional layer of review of VIE reconciliations.

Risks Related to the Restatement

As a result of the material weakness discussed above, the Company s disclosure controls and procedures were not effective and failed to timely prevent or detect errors in its consolidated financial statements which led to the restatement herein. As of the date of this Form 10-Q/A and as described above, management has implemented remedial measures related to the identified material weakness. If the Company s efforts to remediate the weakness identified are not successful, or if other deficiencies occur, these weaknesses or deficiencies could result in misstatements of the Company s results of operations, additional restatements of the Company s consolidated financial statements, a decline in its stock price and investor confidence or other material effects on its business, reputation, results of operations, financial condition or liquidity.

Item 6. Exhibits.

See Exhibit Index for a list of exhibits filed with this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ASSURED GUARANTY LTD.
(Registrant)

Dated: November 14, 2011	By:	/s/ ROBERT A. BAILENSON Robert A. Bailenson *Chief Financial Officer(Principal Financial Officer and Duly Authorized Officer)*

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EXHIBIT INDEX

Exhibit Number	Description of Document
10.1	Waiver Letter dated April 21, 2011 from Dominic J. Frederico (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 22, 2011)
10.2	Waiver Letter dated April 21, 2011 from Robert B. Mills (Incorporated by reference to Exhibit 10.2 to Form 8-K filed on April 22, 2011)
10.3	Waiver Letter dated April 21, 2011 from James M. Michener (Incorporated by reference to Exhibit 10.3 to Form 8-K filed on April 22, 2011)
10.4	Waiver Letter dated April 21, 2011 from Robert A. Bailenson (Incorporated by reference to Exhibit 10.4 to Form 8-K filed on April 22, 2011)
10.5	Terms of Performance Retention Award, Four Year Installment Vesting Granted on February 9, 2011 for participants subject to $1 million limit (Incorporated by reference to Exhibit 10.5 to the Form 10-Q for the quarterly period ended June 30, 2011)
10.6	Form of Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.6 to the Form 10-Q for the quarterly period ended June 30, 2011)
10.7	Form of Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used without employment agreement (Incorporated by reference to Exhibit 10.7 to the Form 10-Q for the quarterly period ended June 30, 2011)
10.8	Director Compensation Summary (Incorporated by reference to Exhibit 10.8 to the Form 10-Q for the quarterly period ended June 30, 2011)
31.1	Certification of CEO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of CFO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002*
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002*
101.1	The following financial information from Assured Guaranty Ltd. s Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2011 formatted in XBRL: (i) Consolidated Balance Sheets at June 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Operations for the Three Months and Six Months ended June 30, 2011 and 2010; (iii) Consolidated Statements of Comprehensive Income for the Three and Six Months ended June 30, 2011 and 2010 (iv) Consolidated Statement of Shareholders Equity for the Six Months ended June 30, 2011; (v) Consolidated Statements of Cash Flows for the Six Months ended June 30, 2011 and 2010; and (vi) Notes to Consolidated Financial Statements.

Management contract or compensatory plan

* Included herewith.