

ASSURED GUARANTY LTD
Form 10-K
March 01, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

or

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

**For the transition period from to .
Commission File Number 001-32141**

ASSURED GUARANTY LTD.

(Exact name of Registrant as specified in its charter)

Bermuda

(State or other jurisdiction of
incorporation or organization)

98-0429991

(I.R.S. Employer Identification No.)

**30 Woodbourne Avenue
Hamilton HM 08 Bermuda
(441) 279-5700**

(Address, including zip code, and telephone number,
including area code, of Registrant's principal executive office)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class

Common Stock, \$0.01 per share

Name of each exchange on which registered

New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 ý No o

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller
reporting company)

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant as of the close of business on June 30, 2009 was \$1,450,839,659 (based upon the closing price of the Registrant's shares on the New York Stock Exchange on that date, which was \$12.38). For purposes of this information, the outstanding shares of Common Stock which were owned by all directors and executive officers of the Registrant were deemed to be the only shares of Common Stock held by affiliates.

As of February 19, 2010, 184,335,043 shares of Common Stock, par value \$0.01 per share, were outstanding (excludes 219,669 unvested restricted shares).

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Registrant's definitive proxy statement relating to its 2010 Annual General Meeting of Shareholders are incorporated by reference to Part III of this report.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Form 10-K 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 wrong. Assured Guaranty's actual results may vary materially. Among the factors that could cause actual results to differ materially are:

rating agency action, including a ratings downgrade at any time of AGL or any of its subsidiaries and/or of transactions that AGL's subsidiaries have insured, both 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 loss reserve;

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

reduction in the amount of reinsurance portfolio opportunities available to the Company;

decreased demand or 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;

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

loss of key personnel;

adverse technological developments;

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").

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

Table of Contents

The foregoing review of important factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this Form 10-K. 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-K 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").

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>1</u>
<u>Item 1A. Risk Factors</u>	<u>50</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>77</u>
<u>Item 2. Properties</u>	<u>77</u>
<u>Item 3. Legal Proceedings</u>	<u>77</u>
<u>Item 4. Reserved</u>	<u>80</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>82</u>
<u>Item 6. Selected Financial Data</u>	<u>84</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>87</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>170</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>171</u>
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>321</u>
<u>Item 9A. Controls and Procedures</u>	<u>321</u>
<u>Item 9B. Other Information</u>	<u>321</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>322</u>
<u>Item 11. Executive Compensation</u>	<u>322</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>322</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>323</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>323</u>
<u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>324</u>

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

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 public finance, infrastructure and structured finance markets in the United States ("U.S.") as well as internationally. The Company applies its credit underwriting expertise, risk management skills and capital markets experience to develop insurance, reinsurance and credit derivative products. The Company's principal product is a guaranty of principal and interest payments on: debt securities issued by governmental entities such as U.S. state or municipal authorities; obligations issued for international infrastructure projects; and asset-backed securities ("ABS") issued by special purpose entities ("SPEs"). The Company markets its protection products against principal and interest payment default directly to issuers and underwriters of public finance, infrastructure and structured finance securities as well as directly to investors in such debt obligations. The Company serves various global debt capital markets, although its principal focus is in the U.S. and Europe.

Debt obligations guaranteed by the Company's insurance subsidiaries are generally awarded debt credit ratings that are the same rating as the financial strength rating of the Assured Guaranty subsidiary that has guaranteed that obligation. As of February 26, 2010, the Company's insurance subsidiaries were rated AA or better by Standard & Poor's Ratings Services ("S&P") and A1 or better by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, at the request of the Company, Fitch Ratings Inc. ("Fitch") withdrew its insurer financial strength and debt ratings on all of the Company's rated subsidiaries. The Company's request had been prompted by Fitch's announcement that it is withdrawing its credit ratings on all insured bonds for which it does not provide an underlying assessment of the obligor. See "Financial Strength Ratings" below. AGL was incorporated in Bermuda in August 2003.

On July 1, 2009 (the "Acquisition Date"), the Company acquired Financial Security Assurance Holdings Ltd., which is in the process of being renamed AGM Holdings Inc. ("AGMH"), and AGMH's subsidiaries, including Financial Security Assurance Inc., which subsequently has been renamed Assured Guaranty Municipal Corp. ("AGM"), from Dexia Holdings, Inc. ("Dexia Holdings"). The purchase price paid by the Company was \$546 million in cash and 22.3 million common shares of AGL. A portion of the purchase price was financed through a public offering of 44,275,000 AGL common shares (raising gross proceeds of \$487.0 million) and 3,450,000 equity units (raising gross proceeds of \$172.5 million).

Assured Guaranty's acquisition of AGMH (the "AGMH Acquisition") did not include the acquisition of AGMH's former financial products business, which was comprised of its guaranteed investment contracts ("GICs") business, its medium term notes ("MTNs") business and the equity payment agreements associated with AGMH's leveraged lease business (the "Financial Products Business"). The AGMH subsidiaries that conducted AGMH's Financial Products Business (the "Financial Products Companies") were transferred to Dexia Holdings prior to completion of the AGMH Acquisition. In addition, as further described under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Arrangements with respect to AGMH's former Financial Products Business," the Company has entered into various agreements with Dexia SA (the parent of Dexia Holdings and, together with its subsidiaries, "Dexia") in order to transfer to Dexia the credit and liquidity risks associated with AGMH's former Financial Products Business.

AGL's principal operating subsidiaries are Assured Guaranty Corp. ("AGC"), AGM and Assured Guaranty Re Ltd. ("AG Re").

Table of Contents

AGC, an insurance company located in New York and domiciled in Maryland, was organized in 1985 and commenced operations in January 1988. It provides insurance and reinsurance that protects against principal and interest payment defaults on debt obligations rated investment-grade ("IG") at inception, in either financial guaranty or credit derivative contract form in the U.S. public finance and the global infrastructure and structured finance markets. AGC owns 100% of Assured Guaranty (UK) Ltd. ("AGUK"), a company incorporated in the United Kingdom ("U.K.") as a U.K. insurance company and which is also authorized to operate in various countries throughout the European Economic Area.

AGM, an insurance company located and domiciled in New York, was organized in 1984 and commenced operations in 1985. It now only provides insurance and reinsurance that protects against principal and interest payment defaults on debt obligations rated IG at inception in the U.S. public finance and global infrastructure market. Previously, AGM also offered insurance and reinsurance in the global structured finance market. AGM owns 100% of FSA Insurance Company ("FSAIC"), an Oklahoma-domiciled insurance company that primarily provides reinsurance to AGM. FSAIC in turn owns 100% of Assured Guaranty (Europe) Ltd. (formerly Financial Security Assurance (U.K.) Limited, "AGE"), a UK incorporated company licensed as a UK insurance company to provide financial guaranty insurance in both the international public finance and structured finance markets. AGM and FSAIC together own Financial Security Assurance International Ltd. ("FSA International"), a Bermuda insurance company that provides reinsurance to AGM and insurance for transactions outside the U.S. and European markets.

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

The AGMH Acquisition as well as the significant financial distress faced by many of the Company's competitors has resulted in the Company becoming the market leader in providing financial guaranty insurance since 2008. Since July 1, 2009, when the AGMH Acquisition closed, the Company has conducted its financial guaranty business on a direct basis from two distinct platforms: AGM, a financial guaranty insurer that now only underwrites U.S. public finance and global infrastructure business, and AGC, a financial guaranty insurer that underwrites U.S. public finance and global infrastructure transactions as well as global structured finance transactions.

The Company believes that investors and issuers will continue to need its financial guaranty insurance over the long term as a result of the following factors:

the Company's financial guaranties are expected to continue to provide municipal issuers with the ability to access the capital markets with new debt offerings at a lower all-in interest cost than on an unguaranteed basis;

U.S. municipalities will continue to have a growing need to finance themselves in the fixed income capital markets due to the growth in their budgetary needs and capital budgets as well as due to recent declines in tax and other revenues resulting from the recent recession;

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

Table of Contents

long-term debt financings for infrastructure projects are expected to grow throughout the world due to the financing needs associated with privatization initiatives or refinancing of infrastructures in developed countries;

securitization and other financing techniques for ABS and other structured finance obligations are expected to be revived, including mortgage-backed securities, as banks and other financial institutions look for alternatives to financing these obligations on their own balance sheets; and

there continues to be a global need for credit protection on public finance, infrastructure and structured finance debt obligations because of reduced risk tolerance by retail and institutional investors as well as financial institutions that invest in the related debt obligations.

Over the long term, the Company expects to continue to originate a diversified portfolio of insured debt obligations with a broad global geographic distribution that is supported by a wide variety of revenue sources and transaction structures.

The Company's Operating Segments

The Company's financial results include four business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. The financial guaranty direct segment is reported net of business ceded to external reinsurers. The financial guaranty insurance and reinsurance segments include interest and principal payment default protection provided in both insurance and credit derivative contract form.

The Company primarily conducts its business through subsidiaries located in the U.S., Europe and Bermuda, although there is also a branch of AGM in Japan and a service company and a representative office in Australia. The Company's insured obligations are generally issued in the U.S. and Europe, although it has also guaranteed securities issued in South America, Australia and other global markets.

The following table sets forth the Company's net premiums earned by segment for the periods presented:

Net Premiums Earned By Segment				
	Year Ended December 31,			
	2009	2008	2007	
	(in millions)			
Financial guaranty direct:				
Public finance	\$ 328.0	\$ 34.6	\$ 13.0	
Structured finance	465.0	55.4	39.9	
 Total financial guaranty direct	 793.0	 90.0	 52.9	
Financial guaranty reinsurance:				
Public finance	92.8	123.1	62.8	
Structured finance	41.6	42.6	26.1	
 Total financial guaranty reinsurance	 134.4	 165.7	 88.9	
Mortgage guaranty:	3.0	5.7	17.5	
 Total net earned premiums	 \$ 930.4	 \$ 261.4	 \$ 159.3	

Financial Guaranty Direct and Financial Guaranty Reinsurance

Financial guaranty direct insurance provides an unconditional and irrevocable guaranty that protects the holder of a financial debt obligation against non-payment of scheduled principal and

Table of Contents

interest payments when due. Upon an obligor's default on scheduled principal or interest payments due on the debt obligation, the Company is required under the financial guaranty or credit derivative contract to pay the investor or swap counterparty the principal or interest shortfall due.

Financial guaranty insurance may be issued to all of the investors of the guaranteed series or tranche of a municipal bond or structured finance security at the time of issuance of those obligations or it may be issued in the secondary market to only specific individual holders of such obligations who purchase the Company's credit protection.

Both issuers of and investors in financial instruments may benefit from financial guaranty insurance. Issuers benefit when they purchase financial guaranty insurance for their new issue debt transaction because the insurance may have the effect of lowering an issuer's interest cost over the life of the issued debt transaction to the extent that the insurance premium charged by the Company is less than the net present value of the difference between the yield on the obligation insured by Assured Guaranty (which carries the credit rating of the specific subsidiary that guarantees the debt obligation) and the yield on the debt obligation if sold on the basis of its uninsured credit rating. The principal benefit to investors is that the Company's guaranty improves the marketability of obligations issued by infrequent or unknown issuers, as well as obligations with complex structures or backed by asset classes new to the market. This benefit, which we call a "liquidity benefit," results from the increase in secondary market trading values for Assured Guaranty-insured obligations as compared to uninsured obligations by the same issuer. In general, the liquidity benefit of financial guaranties is that investors are able to sell insured bonds more quickly and, depending on the financial strength rating of the insurer, at a higher secondary market price than for uninsured debt obligations. The liquidity benefit reflects investors' willingness to pay more for the value of the Company's financial guaranty as well as for the value of the market price homogenization that financial guaranty insurance provides. As a result, investors in bonds guaranteed by the Company benefit from increased liquidity in the secondary market, added protection against loss in the event of the obligor's default on its obligation, and reduced exposure to price volatility caused by changes in the credit quality of the underlying issue.

As an alternative to traditional financial guaranty insurance, credit protection relating to a particular security or obligor may also be provided through a credit derivative contract, such as a credit default swap ("CDS"). Under the terms of a credit default contract or swap, the seller of credit protection agrees to make a specified payment to the buyer of credit protection if one or more specified credit events occurs with respect to a reference obligation or entity. In general, the credit events specified in the Company's credit derivative contracts are for interest and principal defaults on the reference obligation. One difference between credit derivatives and traditional primary financial guaranty insurance is that credit default protection is typically provided to a particular buyer rather than to all holders of the reference obligation. As a result, the Company's rights and remedies under a credit derivative contract may be different and more limited than on a financial guaranty of an entire issuance. Credit derivatives may be preferred by some investors, however, because they generally offer the investor ease of execution and standardized terms as well as more favorable accounting or capital treatment.

Under a reinsurance agreement, the reinsurer receives a premium and, in exchange, agrees to indemnify the primary insurer, called the ceding company, for part or all of the liability of the ceding company under one or more financial guaranty insurance policies that the ceding company has issued. The reinsurer generally agrees to pay the ceding company a ceding commission on the ceded premium as compensation for the reinsurance agreement. The reinsurer may itself purchase reinsurance protection ("retrocessions") from other reinsurers, thereby reducing its own exposure. Reinsurance agreements take two major forms: "treaty" and "facultative." Treaty reinsurance requires the reinsured to cede, and the reinsurer to assume, specific classes of risk underwritten by the ceding company over a specified period of time, typically one year. Facultative reinsurance is the reinsurance of part of one or more specified policies, and is subject to separate negotiation for each cession. The Company believes

Table of Contents

that the opportunities currently available to it in the reinsurance market consist primarily of potentially assuming portfolios of transactions from primary insurers and portfolio recapture transactions.

Financial Guaranty Portfolio

The Company's financial guaranty direct and financial guaranty reinsurance businesses provide credit enhancement, or principal and interest payment default protection, on public finance/infrastructure and structured finance obligations.

Public Finance/Infrastructure Public finance obligations in the U.S. consist primarily of debt obligations issued by or on behalf of states or their political subdivisions (counties, cities, towns and villages, utility districts, public universities and hospitals, public housing and transportation authorities), other public and quasi public entities, private universities and hospitals, and investor owned utilities. These obligations generally are supported by the taxing authority of the issuer, the issuer's or underlying obligor's ability to collect fees or assessments for certain projects or public services or revenues from operations. This market also includes project finance obligations, as well as other structured obligations supporting infrastructure and other public works projects. Infrastructure obligations in the U.S. and internationally consist primarily of debt obligations issued by a project or entity where the debt service is supported by the cash flows from the underlying project. Infrastructure transactions may also benefit from payments from a governmental or municipal tax authority or revenue source, although the principal payment source for an infrastructure transaction is generally from the cash flows of the underlying project itself.

Structured Finance Structured finance obligations in both the U.S. and international markets are generally 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, that are generally held by a non-recourse special purpose issuing entity. Structured finance obligations can be "funded" or "synthetic." Funded structured finance obligations generally have the benefit of one or more forms of credit enhancement, such as over-collateralization and/or excess cash flow, to cover payment default risks associated with the related assets. Synthetic structured finance obligations generally take the form of credit derivatives or credit linked notes that reference a pool of securities or loans, with a defined deductible to cover credit risks associated with the referenced securities or loans.

Because both the financial guaranty insurance and reinsurance businesses involve similar risks, the Company analyzes and monitors the Company's financial guaranty direct portfolio and financial guaranty reinsurance portfolios on a combined basis.

Table of Contents

In the tables that follow, the Company's reinsurance par outstanding on treaty business is reported on a one-quarter lag because of when the Company receives reports prepared by its ceding companies. The following table sets forth the Company's financial guaranty net par outstanding by product line:

Net Par Outstanding By Product Line

	As of December 31,		
	2009	2008	2007
	(in billions)		
U.S. Public Finance:			
Direct	\$ 372.1	\$ 37.4	\$ 7.5
Reinsurance	51.0	69.9	74.4
Total U.S. public finance	423.1	107.3	81.9
Non-U.S. Public Finance			
Direct	37.3	9.6	12.0
Reinsurance	5.4	8.9	9.8
Total non-U.S. public finance	42.7	18.5	21.8
U.S. Structured Finance:			
Direct	132.9	65.6	65.0
Reinsurance	5.4	8.8	8.9
Total U.S. structured finance	138.3	74.4	73.9
Non-U.S Structured Finance:			
Direct	33.2	19.4	18.6
Reinsurance	3.1	3.1	4.1
Total non-U.S. structured finance	36.3	22.5	22.7
Total net par outstanding	\$ 640.4	\$ 222.7	\$ 200.3

U.S. Public Finance Obligations The Company insures and reinsures a number of different types of U.S. public finance obligations, including the following:

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

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

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

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

Table of Contents

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

Healthcare Bonds are obligations of healthcare facilities, including community based hospitals and systems, as well as of health maintenance organizations and long-term care facilities.

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

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

Infrastructure Bonds include obligations issued by a variety of entities engaged in the financing of infrastructure projects, such as roads, airports, ports, social infrastructure and other physical assets delivering essential services supported by long-term concession arrangements with a public sector entity.

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

Other Public Finance Bonds include other debt issued, guaranteed or otherwise supported by U.S. national or local governmental authorities, as well as student loans, revenue bonds, and obligations of some not-for-profit organizations.

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

U.S. Public Finance Gross Par Written by Asset Type

	Year Ended December 31,		
	2009	2008	2007
	(dollars in billions)		
Tax-backed	35.7%	25.5%	22.9%
General obligation	33.7	24.5	25.1
Municipal utilities	12.3	15.3	8.9
Transportation	6.5	11.9	10.4
Higher education	5.2	4.9	7.3
Healthcare	3.4	12.2	13.1
Infrastructure finance	2.7	1.5	0.2
Investor-owned utilities		0.2	2.2
Housing	0.1	0.1	3.1
Other public finance	0.4	3.9	6.8
Total	100.0%	100.0%	100.0%
 Total U.S. public finance gross par written	 \$ 47.1	 \$ 37.0	 \$ 34.8

Table of Contents

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

U.S. Public Finance Net Par Outstanding by Asset Type

	As of December 31,		
	2009	2008	2007
	(dollars in billions)		
General obligation	42.2%	25.2%	24.8%
Tax-backed	19.6	24.1	21.7
Municipal utilities	16.4	14.5	14.2
Transportation	8.3	11.8	12.2
Healthcare	5.2	10.9	12.7
Higher education	3.6	5.0	4.5
Housing	2.0	1.8	2.5
Infrastructure finance	0.8	0.8	0.1
Investor-owned utilities	0.4	2.0	2.8
Other public finance	1.5	3.9	4.5
Total	100.0%	100.0%	100.0%

Total U.S. public finance net par outstanding	\$ 423.1	\$ 107.3	\$ 81.9
---	----------	----------	---------

The table below shows the Company's ten largest U.S. public finance direct and reinsurance exposures by revenue source (stated as a percentage of the Company's total U.S. public finance net par outstanding) as of December 31, 2009:

Ten Largest U.S. Public Finance Exposures

	Net Par Outstanding	Percent of Total U.S. Public Finance Net Par Outstanding	Rating(1)
	(dollars in millions)		
New Jersey, State of	\$ 4,965	1.2%	AA-
New York, State of	3,544	0.8	AA
California, State of	3,528	0.8	A
Massachusetts, Commonwealth of	3,428	0.8	AA
New York, City of New York	3,301	0.8	AA-
Puerto Rico, Commonwealth of	2,616	0.6	BBB-
Washington, State of	2,417	0.6	AA
Chicago, City of Illinois	2,374	0.6	A+
Houston Texas Water and Sewer Authority	2,344	0.6	A+
Wisconsin, State of	2,253	0.5	AA-
Total of top ten U.S. public finance exposures	\$ 30,770	7.3%	

- (1) Represents the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies.

Table of Contents

Non-U.S. Public Finance Obligations The Company insures and reinsures a number of different types of non-U.S. public finance obligations, which consist of both infrastructure projects and other projects essential for municipal function such as regulated utilities. Credit support for the exposures written by the Company may come from a variety of sources, including some combination of subordinated tranches, excess spread, over-collateralization or cash reserves. Additional support also may be provided by transaction provisions intended to benefit noteholders or credit enhancers. The types of non-U.S. public finance securities the Company insures and reinsures include the following:

Infrastructure Finance Obligations are obligations issued by a variety of entities engaged in the financing of international infrastructure projects, such as roads, airports, ports, social infrastructure, and other physical assets delivering essential services supported either by long-term concession arrangements with a public sector entity or a regulatory regime. The majority of the Company's international infrastructure business is conducted in the UK.

Regulated Utilities Obligations are issued by government-regulated providers of essential services and commodities, including electric, water and gas utilities. The majority of the Company's international regulated utility business is conducted in the UK.

Pooled Infrastructure Obligations are synthetic asset-backed obligations that take the form of CDS obligations or credit-linked notes that reference either infrastructure finance obligations or a pool of such obligations, with a defined deductible to cover credit risks associated with the referenced obligations.

Other Public Finance Obligations include obligations of local, municipal, regional or national governmental authorities or agencies.

The following table sets forth the Company's non-U.S. public finance direct and reinsurance gross par written by bond type (stated as a percentage of the Company's total non-U.S. direct and reinsurance gross par written) for the years presented:

Non-U.S. Public Finance Gross Par Written by Asset Type

	Year Ended December 31,		
	2009	2008	2007
	(dollars in billions)		
Infrastructure finance	33.8%	26.8%	29.0%
Regulated utilities	42.8	69.3	43.6
Pooled infrastructure			17.2
Other public finance	23.4	3.9	10.2
Total	100.0%	100.0%	100.0%
Total non-U.S. public finance gross par written	\$ 0.6	\$ 1.8	\$ 7.2

Table of Contents

The following table sets forth the Company's non-U.S. public finance direct and reinsurance net par outstanding by bond type (stated as a percentage of the Company's total non-U.S. public finance direct and reinsurance net par outstanding) as of the dates indicated:

Non-U.S. Public Finance Net Par Outstanding by Asset Type

	As of December 31,		
	2009	2008	2007
	(dollars in billions)		
Infrastructure finance	38.2%	27.3%	27.5%
Regulated utilities	32.4	40.6	38.1
Pooled infrastructure	10.3	23.0	25.3
Other public finance	19.1	9.1	9.1
Total	100.0%	100.0%	100.0%

Total non-U.S. public finance net par outstanding \$ 42.7 \$ 18.5 \$ 21.8

The table below shows the Company's ten largest non-U.S. public finance direct and reinsurance exposures by revenue source (stated as a percentage of the Company's total non-U.S. public finance net par outstanding) as of December 31, 2009:

Ten Largest Non-U.S. Public Finance Exposures

	Net Par Outstanding	Percent of Total Non-U.S. Public Finance Net Par Outstanding (dollars in millions)	Rating(1)
Quebec Province	\$ 2,425	5.7%	A+
Sydney Airport Finance Company	1,567	3.7	BBB
Thames Water Utility Finance Plc	1,389	3.2	BBB+
Essential Public Infrastructure Capital III	919	2.1	AAA
Channel Link Enterprises Finance Plc	908	2.1	BBB
Essential Public Infrastructure Capital II	846	2.0	AAA
Southern Gas Networks Plc	843	2.0	BBB
International AAA Sovereign Debt Synthetic CDO	821	1.9	AAA
Reliance Rail Finance Pty. Limited	750	1.8	A-
United Utilities Water Plc	703	1.6	A
Total of top ten non-U.S. public finance exposures	\$ 11,171	26.1%	

(1) Represents the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies.

U.S. and Non-U.S. Structured Finance Obligations

The Company insures and reinsures a number of different types of U.S. and non-U.S. structured finance obligations. Credit support for the exposures written by the Company may come from a variety of sources, including some combination of subordinated tranches, excess spread, over-collateralization or cash reserves. Additional support also may be provided by transaction provisions intended to benefit noteholders or credit enhancers. The types of U.S. and Non-U.S. Structured Finance obligations the Company insures and reinsures include the following:

Pooled Corporate Obligations are securities primarily backed by various types of corporate debt obligations, such as secured or unsecured bonds, bank loans or loan participations and trust

Table of Contents

preferred securities. These securities are often issued in "tranches," with subordinated tranches providing credit support to the more senior tranches. The Company's financial guaranty exposures generally are to the more senior tranches of these issues.

Residential Mortgage-Backed Securities ("RMBS") and Home Equity Securities are obligations backed by closed-end first mortgage loans and closed- and open-end second mortgage loans or home equity loans on one-to-four family residential properties, including condominiums and cooperative apartments. First mortgage loan products in these transactions include fixed rate, adjustable rate ("ARM") and option adjustable-rate ("Option ARM") mortgages. The credit quality of borrowers covers a broad range, including "prime", "subprime" and "Alt-A". A prime borrower is generally defined as one with strong risk characteristics as measured by factors such as payment history, credit score, and debt-to-income ratio. A subprime borrower is a borrower with higher risk characteristics, usually as determined by credit score and/or credit history. An Alt-A borrower is generally defined as a prime quality borrower that lacks certain ancillary characteristics, such as fully documented income.

Financial Products is the GICs portion of the former Financial Products Business of AGMH. AGM has issued financial guaranty insurance policies on the GICs and in respect of the GICs business that cannot be revoked or cancelled. Assured Guaranty is indemnified against exposure to the former Financial Products Business by Dexia. In addition, the French and Belgian governments have issued guaranties in respect of the GICs portion of the Financial Products Business. The Financial Products Business is currently being run off.

Structured Credit Securities include program-wide credit enhancement for commercial paper conduits in the U.S., and securities issued in whole business securitizations and intellectual property securitizations. Program-wide credit enhancement generally involves insuring against the default of ABS in a bank-sponsored commercial paper conduit. Securities issued in whole business and intellectual property securitizations are backed by revenue-producing assets sold to a limited-purpose company by an operating company, including franchise agreements, lease agreements, intellectual property and real property.

Consumer Receivables Securities are obligations backed by non-mortgage consumer receivables, such as automobile loans and leases, credit card receivables and other consumer receivables.

Commercial Mortgage-Backed Securities ("CMBS") are obligations backed by pools of commercial mortgages. The collateral supporting CMBS include office, multi-family, retail, hotel, industrial and other specialized or mixed-use properties.

Commercial Receivables Securities are obligations backed by equipment loans or leases, fleet auto financings, business loans and trade receivables. Credit support is derived from the cash flows generated by the underlying obligations, as well as property or equipment values as applicable.

Insurance Securitization Securities are obligations secured by the future earnings from pools of various types of insurance/reinsurance policies and income produced by invested assets.

Other Structured Finance Securities are obligations backed by assets not generally described in any of the other described categories.

Table of Contents

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

U.S. Structured Finance Gross Par Written by Asset Type

	Year Ended December 31,			
	2009	2008	2007	
	(dollars in billions)			
Pooled corporate obligations		%	30.0%	40.9%
RMBS and home equity			25.0	28.8
Structured credit			22.4	2.9
Consumer receivables	74.9	16.8	13.9	
Commercial receivables	7.3	5.6	6.8	
CMBS				4.1
Insurance securitizations				2.2
Other structured finance	17.8	0.2	0.4	
Total	100.0%	100.0%	100.0%	

Total U.S. structured finance gross par written \$ 2.2 \$ 12.7 \$ 36.0

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

U.S. Structured Finance Net Par Outstanding by Asset Type

	As of December 31,		
	2009	2008	2007
	(dollars in billions)		
Pooled corporate obligations	53.7%	46.6%	45.8%
RMBS and home equity	21.1	24.7	24.7
Financial Products	7.4		
Consumer receivables	6.4	6.9	8.9
CMBS	5.4	7.9	8.1
Structured credit	1.9	4.4	2.1
Commercial receivables	1.8	6.6	7.1
Insurance securitizations	1.2	2.1	1.6
Other structured finance	1.1	0.8	1.7
Total	100.0%	100.0%	100.0%
Total U.S. structured finance par outstanding	\$ 138.3	\$ 74.4	\$ 73.9

Table of Contents

The table below shows the Company's ten largest U.S. structured finance direct and reinsurance exposures by revenue source (stated as a percentage of the Company's total U.S. structured finance net par outstanding) as of December 31, 2009:

Ten Largest U.S. Structured Finance Exposures

	Net Par Outstanding	Percent of Total U.S. Structured Finance Net Par Outstanding (dollars in millions)	Rating(1)
Fortress Credit Opportunities I, LP.	\$ 1,302	0.9%	AA
Stone Tower Credit Funding	1,254	0.9	AAA
Synthetic Investment Grade Pooled Corporate CDO	1,157	0.8	Super Senior
Discover Card Master Trust I Series 2005-A	1,000	0.7	AAA
Synthetic High Yield Pooled Corporate CDO	975	0.7	AA-
Deutsche Alt-A Securities Mortgage Loan 2007-2	913	0.7	CCC
Synthetic Investment Grade Pooled Corporate CDO	791	0.6	Super Senior
Synthetic Investment Grade Pooled Corporate CDO	765	0.6	Super Senior
Synthetic Investment Grade Pooled Corporate CDO	754	0.6	Super Senior
Synthetic High Yield Pooled Corporate CDO	738	0.5	A
Total of top ten U.S. structured finance exposures	\$ 9,649	7.0%	

(1)

Represents the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies. The super senior category, which is not generally used by rating agencies, is used by the Company in instances where the Company's AAA rated exposure has additional credit enhancement due to either (1) the existence of another security rated AAA by the Company that is subordinated to the Company's exposure or (2) the Company's exposure benefits 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 the Company's attachment point to be materially above the AAA attachment point.

The following table sets forth the Company's non-U.S. structured finance direct and reinsurance gross par written by asset type (stated as a percentage of the Company's total non-U.S. structured finance direct and reinsurance gross par written) for the years presented:

Non U.S. Structured Finance Gross Par Written by Asset Type

	Year Ended December 31,		
	2009	2008	2007
	(dollars in billions)		
RMBS and home equity	%	68.6%	27.3%
Pooled corporate obligations		22.4	53.2
Commercial receivables		3.4	8.5
CMBS			3.1
Structured credit			1.1
Insurance securitizations			
Other structured finance		5.6	6.8
Total	%	100.0%	100.0%
Total non-U.S. structured finance gross par written	\$	\$ 4.5	\$ 10.1

Table of Contents

The following table sets forth the Company's non-U.S. structured finance direct and reinsurance net par outstanding by asset type (stated as a percentage of the Company's total non-U.S. structured finance direct and reinsurance net par outstanding) as of the dates indicated:

Non-U.S. Structured Finance Net Par Outstanding by Asset Type

	As of December 31,		
	2009	2008	2007
	(dollars in billions)		
Pooled corporate obligations	68.1%	37.2%	37.3%
RMBS and home equity	14.4	36.6	32.4
Structured credit	5.7	1.9	2.6
Commercial receivables	5.2	7.6	8.4
Insurance securitizations	2.7	4.2	3.8
CMBS	2.1	3.5	5.5
Other structured finance	1.8	9.0	10.0
Total	100.0%	100.0%	100.0%
Total international net par outstanding	\$ 36.3	\$ 22.5	\$ 22.7

The table below shows the Company's ten largest non-U.S. structured finance direct and reinsurance exposures by revenue source (stated as a percentage of the Company's total non-U.S. structured finance net par outstanding) as of December 31, 2009:

Ten Largest Non-U.S. Structured Finance Exposures

	Net Par Outstanding	Percent of Total Non-U.S. Structured Finance Net Par Outstanding (dollars in millions)	Rating(1)
Prime European RMBS (PB Domicile 2006-1)	\$ 1,269	3.5%	AAA
Fortress Credit Investments I Class A-1 Revolver	935	2.6	AAA
Paragon Mortgages (NO.13) PLC	758	2.1	AAA
International Super AAA Synthetic Investment Grade Pooled Corporate CDO	740	2.0	Super Senior
International Super AAA Synthetic Investment Grade Pooled Corporate CDO	590	1.6	Super Senior
Taberna Europe CDO II PLC	585	1.6	BBB-
Global Senior Loan Index Fund 1 B.V.	559	1.5	AAA
ACS 2007-1 Pass Through Trust	533	1.5	A
Ballantyne RE PLC Class A-2 Floating Rate Notes	500	1.4	CC
Harvest CLO III Private CLO	497	1.4	AAA
Total of top ten non-U.S. structured finance exposures	\$ 6,966	19.2%	

(1)

Represents the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies. The super senior category, which is not generally used by rating agencies, is used by the Company in instances where the Company's AAA rated exposure has additional credit enhancement due to either (1) the existence of another security rated AAA that is subordinated to the Company's exposure or (2) the Company's exposure benefits from a different form of credit enhancement that would pay any claims first in the event that any of the

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

Table of Contents

exposures incurs a loss, and such credit enhancement, in management's opinion, causes the Company's attachment point to be materially above the AAA attachment point.

Financial Guaranty Portfolio by Internal Rating

The following table sets forth the Company's net financial guaranty portfolio as of December 31, 2009 by internal rating:

Financial Guaranty Portfolio by Internal Rating

Rating Category(1)	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S.		Structured Finance Non-U.S.		Total	
	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%
(dollars in millions)										
Super senior	\$ 25	0.0%	\$ 2,316	5.4%	\$ 28,272	20.4%	\$ 12,740	35.1%	\$ 43,353	6.8%
AAA	6,461	1.5	1,477	3.5	40,022	28.9	11,826	32.6	59,786	9.3
AA	164,986	39.0	2,105	4.9	26,799	19.4	2,969	8.2	196,859	30.7
A	208,771	49.4	13,542	31.7	8,305	6.0	2,582	7.1	233,200	36.4
BBB	39,709	9.4	22,691	53.0	14,514	10.5	5,145	14.2	82,059	12.8
Below investment grade	3,126	0.7	644	1.5	20,389	14.8	1,006	2.8	25,165	4.0
Total	\$ 423,078	100.0%	\$ 42,775	100.0%	\$ 138,301	100.0%	\$ 36,268	100.0%	\$ 640,422	100.0%

(1)

Represents the Company's internal rating. The Company's rating scale is similar to that used by the nationally recognized rating agencies. The super senior category, which is not generally used by rating agencies, is used by the Company in instances where the Company's AAA rated exposure has additional credit enhancement due to either (1) the existence of another security rated AAA that is subordinated to the Company's exposure or (2) the Company's exposure benefits 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 the Company's attachment point to be materially above the AAA attachment point.

Table of Contents
Financial Guaranty Portfolio by Geographic Area

The following table sets forth the geographic distribution of the Company's financial guaranty portfolio as of December 31, 2009:

Geographic Distribution of Financial Guaranty Portfolio as of December 31, 2009

	Net Par Outstanding	Percent of Total Net Par Outstanding
(dollars in millions)		
U.S.:		
U.S. Public Finance:		
California	\$ 60,187	9.4%
New York	35,407	5.5
Texas	31,099	4.9
Pennsylvania	28,594	4.5
Florida	25,352	4.0
Illinois	24,968	3.9
New Jersey	18,500	2.9
Michigan	17,070	2.7
Massachusetts	13,153	2.1
Washington	12,956	2.0
Other states	155,792	24.2
Total U.S. Public Finance	423,078	66.1
Structured finance (multiple states)	138,301	21.6
Total U.S.	561,379	87.7
Non-U.S.		
United Kingdom	30,929	4.8
Australia	8,784	1.4
Canada	4,948	0.8
France	2,663	0.4
Italy	2,445	0.4
Other	29,274	4.5
Total non-U.S.	79,043	12.3
Total	\$ 640,422	100.0%

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

Table of Contents

Financial Guaranty Portfolio by Issue Size

The Company seeks broad coverage of the market by insuring and reinsuring small and large issues alike. The following table sets forth the distribution of the Company's portfolio as of December 31, 2009 by original size of the Company's exposure:

Public Finance Portfolio by Issue Size

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Public Finance Net Par Outstanding
(dollars in millions)			
Less than \$10 million	25,300	\$ 62,047	13.3%
\$10 through \$50 million	7,424	140,360	30.1
\$50 through \$100 million	1,464	85,979	18.5
\$100 million and above	993	177,467	38.1
Total	35,181	\$ 465,853	100.0%

Structured Finance Portfolio by Issue Size

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Structured Finance Net Par Outstanding
(dollars in millions)			
Less than \$10 million	440	\$ 508	0.3%
\$10 through \$50 million	873	14,801	8.5
\$50 through \$100 million	348	18,590	10.6
\$100 million and above	689	140,670	80.6
Total	2,350	\$ 174,569	100.0%

Mortgage Guaranty Insurance/Reinsurance

Mortgage guaranty insurance provides protection to mortgage lending institutions against the default by borrowers on mortgage loans that, at the time of the advance, had a loan to value ratio in excess of a specified ratio. The Company has not been active in writing new business in this segment since 2007. The in-force book of mortgage business consists of assumed risks undertaken by primary mortgage insurers, generally located outside the U.S. Reinsurance in the mortgage guaranty insurance industry is used to increase the insurance capacity of the ceding company, to assist the ceding company in meeting applicable regulatory and rating agency requirements, to augment the financial strength of the ceding company, and to manage the ceding company's risk profile. The Company provides mortgage guaranty protection on an excess of loss basis.

The following table sets forth the Company's mortgage insurance and reinsurance risk in force by geographic region as of December 31, 2009:

Mortgage Guaranty Risk In Force By Geographic Region

	Risk In Force	Percent
(dollars in millions)		
United Kingdom	\$ 232	60.2%
Ireland	151	39.3
United States	2	0.5
Total	\$ 385	100.0%

Table of Contents

The following table sets forth the Company's mortgage guaranty risk in force by treaty type as of December 31, 2009:

Mortgage Guaranty Risk In Force By Treaty Type

	Risk In Force	Percent
	(dollars in millions)	
Excess of loss	\$ 383	99.5%
Quota share	2	0.5
Total	\$ 385	100.0%

Other

The Company underwrote several lines of business that the Company exited in connection with its 2004 initial public offering which are classified in the Company's other segment. Such lines of business include equity layer credit protection, trade credit reinsurance, title reinsurance and auto residual value reinsurance. Certain of the exposure that the Company has to this segment has been ceded to ACE Limited, but the Company remains primarily liable for such exposure.

Underwriting, Risk Management and Workout

The Company's policies and procedures relating to risk assessment and risk management are overseen by its Board of Directors. The Board takes an enterprise-wide approach to risk management that is designed to support the Company's business plans at a reasonable level of risk. A fundamental part of risk assessment and risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the Company. The Board of Directors annually approves the Company's business plan, factoring risk management into account. The involvement of the Board in setting the Company's business strategy is a key part of its assessment of management's risk tolerance and also a determination of what constitutes an appropriate level of risk for the Company.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibility for risk assessment and risk management. The Risk Oversight Committee of the Board of Directors oversees the standards, controls, limits, guidelines and policies that the Company establishes and implements in respect of credit underwriting and risk management. It focuses on management's assessment and management of both (i) credit risks and (ii) other risks, including, but not limited to, financial, legal and operational risks, and risks relating to the Company's reputation and ethical standards. In addition, the Audit Committee of the Board of Directors is responsible for reviewing policies and processes related to the evaluation of risk assessment and risk management, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. It also reviews compliance with legal and regulatory requirements.

The Company has established a number of management committees to develop underwriting and risk management guidelines, policies and procedures for the Company's insurance and reinsurance subsidiaries that are tailored to their respective businesses, providing multiple levels of credit review and analysis.

Portfolio Risk Management Committee This committee establishes company-wide credit policy for all segments of the Company's business. It implements specific underwriting procedures and limits for the Company and allocates underwriting capacity among the Company's subsidiaries. The Portfolio Risk Management Committee focuses on measuring and managing credit, market

Table of Contents

and liquidity risk for the overall company. All transactions in new asset classes or new jurisdictions must be approved by this committee.

U.S. Management Committee This committee establishes strategic policy and reviews the implementation of strategic initiatives and general business progress in the U.S. The U.S. Management Committee approves risk policy at the U.S. operating company level.

U.S. Risk Management Committee This committee conducts an in-depth review of the insured portfolios of the U.S. subsidiaries, focusing on varying portions of the portfolio at each meeting. It assigns internal ratings of the insured transactions and reviews sector reports, monthly product line surveillance reports and compliance reports.

Workout Committee This committee receives reports on transactions that might benefit from active loss mitigation and develops loss mitigation strategies for such transactions.

Reserve Committee This committee is composed of the President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Chief Accounting Officer and Chief Surveillance Officer of AGL as well as the Company's Chief Actuary. The reserve committee establishes reserves for the Company, taking into consideration the information provided by surveillance personnel.

Underwriting Procedure

Each transaction underwritten by the Company involves persons with different expertise across various departments within the Company. The Company's transaction underwriting teams include both underwriting and legal personnel, who analyze the structure of a potential transaction and the credit and legal issues pertinent to the particular line of business or asset class, and accounting and finance personnel, who review the transaction for compliance with applicable accounting standards and investment guidelines.

In the public finance portion of the Company's financial guaranty direct line, underwriters generally analyze the issuer's historical financial statements and, where warranted, develop stress case projections to test the issuers' ability to make timely debt service payments under stressful economic conditions. In the structured finance portion of the Company's financial guaranty direct line and in the mortgage guaranty line, underwriters generally use computer-based financial models in order to evaluate the ability of the transaction to generate adequate cash flow to service the debt under a variety of scenarios. The models include economically-stressed scenarios that the underwriters use for their assessment of the potential credit risk inherent in a particular transaction. For financial guaranty reinsurance transactions, stress model results may be provided by the primary insurer. Stress models may also be developed internally by the Company's underwriters and reflect both empirical research as well as information gathered from third parties, such as rating agencies, investment banks or servicers. The Company may also perform a due diligence review when the underwriters believe that such a review is necessary to assess properly a particular transaction. A due diligence review may include, among other things, a site visit to the project or facility, meetings with issuer management, review of underwriting and operational procedures, file reviews, and review of financial procedures and computer systems. The Company may also engage advisors such as consultants and external counsel to assist in analyzing a transaction's financial or legal risks.

Upon completion of the underwriting analysis, the underwriter prepares a formal credit report that is submitted to a credit committee for review. An oral presentation is usually made to the committee, followed by questions from committee members and discussion among the committee members and the underwriters. In some cases, additional information may be presented at the meeting or required to be submitted prior to approval. Signatures of committee members are received and any further requirements, such as specific terms or evidence of due diligence, is noted. The Company currently has four credit committees composed of senior officers of the Company. The committees are organized by

Table of Contents

asset class, such as for public finance or structured finance, or along regulatory lines, to assess the various potential exposures.

Credit Policy

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

Critical risk factors that the Company would analyze for proposed public finance exposures include, for example, the credit quality of the issuer, the type of issue, the repayment source, the security pledged, the presence of restrictive covenants and the issue's maturity date. The Company has also been focusing on the ability of obligors to file for bankruptcy or receivership under applicable statutes (and on related statutes that provide for state oversight or fiscal control over financially troubled obligors); the amount of liquidity available to the obligors for debt payment, including the obligors' exposure to derivative contracts and to debt subject to acceleration; and to the ability of the obligors to increase revenue. Underwriting considerations include (1) the classification of the transaction, reflecting economic and social factors affecting that bond type, including the importance of the proposed project to the community, (2) the financial management of the project and of the issuer, and (3) various legal and administrative factors. In cases where the primary source of repayment is the taxing or rate setting authority of a public entity, such as general obligation bonds, transportation bonds and municipal utility bonds, emphasis is placed on the overall financial strength of the issuer, the economic and demographic characteristics of the taxpayer or ratepayer and the strength of the legal obligation to repay the debt. In cases of not-for-profit institutions, such as healthcare issuers and private higher education issuers, emphasis is placed on the financial stability of the institution, its competitive position and its management experience.

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

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

Table of Contents

Risk Management Procedure

The Company's surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio, including exposures in both the financial guaranty direct and reinsurance segments. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and take such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are risk rated, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. For transactions where a loss is considered probable, surveillance personnel present analysis related to potential loss situations to the reserve committee.

Financial Guaranty Direct Business

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

Financial Guaranty Reinsurance Business

For transactions in the Company's financial guaranty reinsurance segment, the ceding insurers are responsible for conducting ongoing surveillance of the exposures that have been ceded to the Company. The Company's surveillance personnel monitor the ceding insurer's surveillance activities on exposures ceded to the Company through a variety of means including, but not limited to, reviews of surveillance reports provided by the ceding insurers, and meetings and discussions with their analysts. The Company's surveillance personnel also monitor general news and information, industry trends and rating agency reports to help focus surveillance activities on sectors or credits of particular concern. For certain exposures, the Company also will undertake an independent analysis and remodeling of the transaction. In the event of credit deterioration of a particular exposure, more frequent reviews of the ceding company's risk mitigation activities are conducted. The Company's surveillance personnel also take steps to ensure that the ceding insurer is managing the risk pursuant to the terms of the applicable reinsurance agreement. To this end, the Company conducts periodic reviews of ceding companies' surveillance activities and capabilities. That process may include the review of the insurer's underwriting, surveillance and claim files for certain transactions.

For more detailed information about the Company's risk management policies and procedures, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management Activities."

Workout Activities

The Company has workout personnel who work together with the Company's surveillance personnel to develop and implement strategies on transactions that are experiencing loss or may be likely to experience loss to mitigate those losses. The Company's loss mitigation strategies include enforcing its right to require that sellers or originators repurchase loans from RMBS transactions if the

Table of Contents

seller or originator has breached its representations and warranties regarding that loan; negotiating settlements; making open market purchases of securities that it has insured; overseeing servicers of RMBS transactions and working with them to enhance their performance; and pursuing litigation.

Reinsurance

As part of its risk management strategy, the Company has sought in the past to obtain third party reinsurance or retrocessions and may also periodically enter into other arrangements to reduce its exposure to risk concentrations, such as for single risk limits, portfolio credit rating or exposure limits, geographic limits or other factors. At December 31, 2009, the Company had reinsured approximately 12% of its principal amount outstanding to third party reinsurers.

The Company historically obtained reinsurance to increase its underwriting capacity, both on an aggregate-risk and a single-risk basis, to meet internal, rating agency and regulatory risk limits, diversify risks, reduce the need for additional capital, and strengthen financial ratios. The Company receives capital credit for ceded reinsurance based on the reinsurer's ratings in the capital models used by the rating agencies to evaluate the Company's capital position for its financial strength ratings. In addition, a number of the Company's reinsurers are required to pledge collateral to secure their reinsurance obligations to the Company. In some cases, the pledged collateral augments the rating agency credit for the reinsurance provided. In recent years, most of the Company's reinsurers have been downgraded by one or more rating agency below the Company's ratings. While ceding commissions or premium allocation adjustments may compensate in part for such downgrades, the effect of such downgrades, in general, is to decrease the financial benefits of using reinsurance under rating agency capital adequacy models. However, to the extent a reinsurer still has the financial wherewithal to pay, the Company could still benefit from the reinsurance provided.

The Company's ceded reinsurance may be on a quota share, first-loss or excess-of-loss basis. Quota share reinsurance generally provides protection against a fixed specified percentage of all losses incurred by the Company. First-loss reinsurance generally provides protection against a fixed specified percentage of losses incurred up to a specified limit. Excess-of-loss reinsurance generally provides protection against a fixed percentage of losses incurred to the extent that losses incurred exceed a specified limit. Reinsurance arrangements typically require the Company to retain a minimum portion of the risks reinsured.

The Company has both facultative (transaction-by-transaction) and treaty ceded reinsurance contracts, generally arranged on an annual basis. By annual treaty, the Company employed "automatic facultative" reinsurance that permitted the Company to apply reinsurance to transactions it selected subject to certain limitations. The remainder of the Company's treaty reinsurance provided coverage for a portion, subject in certain cases to adjustment at the Company's election, of the exposure from all qualifying policies issued during the term of the treaty. The reinsurer's participation in a treaty was either cancellable annually upon 90 days' prior notice by either the Company or the reinsurer or had a one-year term. Treaties generally provide coverage for the full term of the policies reinsured during the annual treaty period, except that, upon a financial deterioration of the reinsurer or the occurrence of certain other events, the Company generally has the right to reassume all or a portion of the business reinsured. Reinsurance agreements may be subject to other termination conditions as required by applicable state law.

Financial Strength Ratings

Major securities rating agencies generally assign ratings to obligations insured by AGC or AGM on the basis of the financial strength ratings assigned to the applicable insurer. Investors frequently rely on rating agency ratings because they influence the trading value of securities and form the basis for many institutions' investment guidelines. Therefore, the Company manages its business with the goal of achieving high financial strength ratings, preferably the highest that an agency will assign to any

Table of Contents

guarantor. However, the models used by rating agencies differ, presenting conflicting goals that sometimes 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.

On February 24, 2010, at the request of the Company, Fitch withdrew the insurer financial strength and debt ratings of all of the Company's rated subsidiaries at their then current levels of AA for AGM, FSAIC, FSA International and AGE; of AA- for AGC, AG Re, AGRO, AGMIC and AGUK; of A- for the senior debt of both Assured Guaranty US Holdings Inc. ("AGUS") and AGMH; and of BBB for the junior subordinated debentures of both AGUS and AGMH. All of such ratings had been on negative outlook. The Company's request had been prompted by Fitch's announcement that it is withdrawing its credit ratings on all insured bonds for which it does not provide an underlying assessment of the obligor, an action that affects the bonds of approximately 90% of the obligors represented in the combined AGM and AGC portfolio. The Company does not believe withdrawal of the Fitch rating will have a material impact on new business production due to the limited number of issuers with an underlying Fitch rating. Withdrawal of the rating has the additional benefits of reducing rating agency volatility, providing the Company more flexibility in managing its capital, and eliminating the rating fees that the Company would otherwise pay to Fitch.

The Company's subsidiaries have been assigned the following insurance financial strength ratings as of February 26, 2010. These ratings are subject to continuous review:

Rating Agency Ratings and Outlooks(1)

	S&P	Moody's
Assured Guaranty Corp. (AGC)	AAA	Aa3
Assured Guaranty (UK) Ltd. (AGUK)	AAA	Aa3
Assured Guaranty Municipal Corp. (AGM)	AAA	Aa3
Assured Guaranty (Europe) Ltd. (AGE)	AAA	Aa3
FSA Insurance Company (FSAIC)	AAA	Aa3
Financial Security Assurance International Ltd. (FSA International)	AAA	Aa3
Assured Guaranty Re Ltd. (AG Re)	AA	A1
Assured Guaranty Re Overseas Ltd. (AGRO)	AA	A1
Assured Guaranty Mortgage Insurance Company (AGMIC)	AA	A1

(1)

The outlook of the rating of each company is negative, except for the outlook of the ratings of AG Re, AGRO and AGMIC, which is stable. AAA (Extremely Strong) rating is the highest ranking and AA (Very Strong) is the third highest ranking of the 22 ratings categories used by S&P. Aa3 (Excellent) is the fourth highest ranking and A1 (Good) is the fifth highest ranking of 21 ratings categories used by Moody's.

Historically, an insurance financial strength rating was an opinion with respect to an insurer's ability to pay under its insurance policies and contracts in accordance with their terms. The opinion is not specific to any particular policy or contract. Insurance financial strength ratings do not refer to an insurer's ability to meet non-insurance obligations and are not a recommendation to purchase any policy or contract issued by an insurer or to buy, hold, or sell any security insured by an insurer. More recently, the ratings also reflect qualitative factors, such as the rating agencies' opinion of an insurer's business strategy and franchise value, the anticipated future demand for its product, the composition of its portfolio, and its capital adequacy, profitability and financial flexibility.

The major rating agencies have developed and published rating guidelines for rating financial guaranty and mortgage guaranty insurers and reinsurers. The insurance financial strength ratings assigned by the rating agencies are based upon factors relevant to policyholders and are not directed toward the protection of investors in AGL's common shares. The rating criteria used by the rating agencies in establishing these ratings include consideration of the sufficiency of capital resources to meet projected growth (as well as access to such additional capital as may be necessary to continue to meet applicable capital adequacy standards), a company's overall financial strength, and demonstrated

Table of Contents

management expertise in financial guaranty and traditional reinsurance, credit analysis, systems development, marketing, capital markets and investment operations. Obligations insured by AGC and AGM generally are rated AAA by S&P and Aa3 by Moody's by virtue of such insurance. These ratings reflect only the views of the respective rating agencies and are subject to revision or withdrawal at any time.

The ratings of AGRO, AGMIC, AG UK and AGE are dependent upon support arrangements such as reinsurance and keepwell agreements. AG Re provides support to its subsidiary AGRO. AGRO provides support to its subsidiary AGMIC. AGC provides support to its subsidiary AGUK. AGM provides support to its subsidiary AGE. Pursuant to the terms of these agreements, each of AG Re, AGRO, AGC and AGM agrees to assume exposure from their respective subsidiaries and to provide funds to such subsidiaries sufficient for them to meet their obligations.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Strength Ratings" for more information about the Company's ratings.

Competition

Assured Guaranty's principal competition effectively are other forms of credit enhancement, such as letters of credit or credit derivatives provided by foreign and domestic banks and other financial institutions, some of which are governmental enterprises, or direct guaranties of municipal, structured finance or other debt by a federal or state government or government-sponsored or affiliated agency. In addition, credit or structural enhancement embedded in transactions, such as through overcollateralization, first loss insurance, excess spread or other terms and conditions that provide investors with additional collateral or cash flow also compete with the Company's financial guaranties.

Assured Guaranty is currently the market leader in providing financial guaranty insurance. Other companies that previously provided financial guaranty insurance have faced significant financial distress since 2008. For example, Ambac Assurance Corporation ("Ambac") and MBIA Insurance Corporation ("MBIA") are no longer writing new business. Syncora Guarantee Inc. ("Syncora") and Financial Guaranty Insurance Corporation ("FGIC") have been ordered by the New York Insurance Department, their principal regulator, to suspend all claim payments until capital strengthening plans are implemented. CIFG Assurance North America ("CIFG") has been restructured, and a significant portion of its U.S. public finance portfolio was ceded to AGC in January 2009. AGM, which has continued to write new business, was acquired by Assured Guaranty in July 2009. New entrants into the financial guaranty industry, such as Berkshire Hathaway Assurance Corporation, Municipal and Infrastructure Assurance Corporation, National Public Finance Guarantee Corporation and Everspan Financial Guarantee Corporation did not actively write new business in 2009. As a result, in 2009, of the securities that were issued with financial guaranty insurance, 98% of such issuances were insured by Assured Guaranty.

However, due to the unprecedented financial stress experienced by the financial guarantors, the confidence of the market in financial guaranty insurance has significantly weakened. In the U.S. public finance market, for example, insurer penetration in 2009 was approximately 8.7%, down from over 57% in 2005. Lingering uncertainty over the amount of losses ultimately to be experienced by the financial guarantors in their portfolios, particularly in respect of U.S. RMBS transactions and collateralized debt obligations backed by asset-backed securities, and the availability of alternative forms of credit enhancement, have led issuers and their investors to offer securities on an uninsured basis.

In the future, should the market's view about financial guaranty insurance stabilize, new entrants into the financial guaranty industry could reduce the Company's future new business prospects, including by furthering price competition or offering financial guaranty insurance on transactions with structural and security features that are more favorable to the issuers than those required by Assured Guaranty. In addition, the Federal Home Loan Bank has been authorized to participate to a limited extent in the municipal financial guaranty market. There have also been proposals for the U.S.

Table of Contents

Congress to establish a federally chartered bond insurer and for states, pension funds and the National League of Cities to establish bond insurers.

Alternative credit enhancement structures, and in particular federal government credit enhancement or other programs, can also affect the Company's new business prospects, particularly if they provide direct governmental-level guaranties, restrict the use of third-party financial guaranties or reduce the amount of transactions that might qualify for financial guaranties. There have been periodic proposals during the past several years for state-level support of financial guaranties through investment in non-profit bond insurers. In addition, some aspects of the U.S. federal government's bailout of financial institutions have impacted the demand and use for financial guaranties. For instance, the terms of the Troubled Asset Loan Facility program through the U.S. Treasury excludes financial guaranty forms of credit enhancement, reducing the amount of structured finance issuance that might come into the public market for insurance.

Other factors, which may not directly address credit enhancement, may also affect the demand for the Company's financial guaranties. For instance, the increase in conforming loan limits for residential mortgages and the expansion of the Federal Housing Administration's loan guaranty program have reduced the percentage of U.S. residential mortgage issuance available for private market securitization in the last several years. Another recent example is the federal government's Build America Bonds ("BABs") program, which provides direct interest rate expense subsidies to municipal issuers. As a result of the BABs program, municipal issuers have been able to sell bonds to taxable bond investors at a lower all-in interest cost than they would pay in the tax-exempt market to investors who have not traditionally relied upon bond insurance. Furthermore, the structure of the BABs program financially discourages BABs issuers from using bond insurance because the BAB interest rate subsidy is not based upon interest expense, which does not include any premiums the issuer paid for bond insurance.

The Company currently has no competitors in the financial guaranty reinsurance market. Previously, the Company had competed in the financial guaranty reinsurance market with multi-line insurers and with the other primary financial guaranty insurers. Competition in the financial guaranty reinsurance business is based upon many factors including financial strength ratings from the major rating agencies, a financial enhancement rating from S&P, pricing, service, size and underwriting criteria.

For more information about the competitive environment in which the Company operates, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Business Environment and Market Trends."

Investments

The Company's principal objectives in managing the Company's investment portfolio are to meet applicable regulatory requirements; to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and to maximize total after-tax net investment income while generating a competitive total rate of return.

The Company has a formal review process for all securities in the Company's investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include:

a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;

a decline in the market value of a security for a continuous period of 12 months;

recent credit downgrades of the applicable security or the issuer by rating agencies;

the financial condition of the applicable issuer;

whether loss of investment principal is anticipated;

Table of Contents

whether scheduled interest payments are past due; and

whether the Company intends to sell the security prior to its recovery in fair value.

If the Company believes a decline in the value of a particular investment is temporary, the Company records the decline as an unrealized loss on the Company's consolidated balance sheets in "accumulated other comprehensive income" in shareholders' equity.

Prior to April 1, 2009, if the Company believed the decline to be "other than temporary," the Company wrote down the carrying value of the investment and recorded a realized loss in the Company's consolidated statements of operations.

As of April 1, 2009, new accounting guidance was issued requiring any credit-related impairment on debt securities the Company does not plan to sell and more-likely-than-not will not to be required to sell to be recognized in the consolidated statement of operations, with the non-credit-related impairment recognized in other comprehensive income ("OCI"). For other impaired debt securities, where the Company has the intent to sell the security or more likely than not be required to or where the entire impairment is deemed by the Company to be credit-related, the entire impairment is recognized in the consolidated statement of operations.

Beginning April 1, 2009 the Company recognizes an other-than-temporary impairment ("OTTI") loss in the consolidated statement of operations for a debt security in an unrealized loss position when either the Company has the intent to sell the debt security or it is more likely than not the Company will be required to sell the debt security before its anticipated recovery.

The Company's assessment of a decline in value includes management's current assessment of the factors noted above. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

Prior to mid-October 2009, the Company's investment portfolio was managed by BlackRock Financial Management, Inc. and Western Asset Management. In mid-October 2009, in addition to BlackRock Financial Management, Inc., the Company retained Deutsche Investment Management Americas Inc., General Re-New England Asset Management, Inc. and Wellington Management Company, LLP to manage the Company's investment portfolio. The Company's investment managers have discretionary authority over the Company's investment portfolio within the limits of the Company's investment guidelines approved by the Company's Board of Directors. The Company compensates each of these managers based upon a fixed percentage of the market value of the Company's portfolio. During the years ended December 31, 2009, 2008 and 2007, the Company posted investment management fee expenses of \$5.4 million, \$2.6 million, and \$2.0 million, respectively, related to these managers.

Regulation

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Reinsurers are generally subject to less direct regulation than primary insurers. The Company is subject to regulation under applicable statutes in the U.S., the UK and Bermuda, as well as applicable statutes in Australia and Japan.

United States

AGL has four operating insurance subsidiaries domiciled in the U.S., which the Company refers to collectively as the "Assured Guaranty U.S. Subsidiaries."

AGC is a Maryland domiciled insurance company licensed to write financial guaranty insurance and reinsurance (which is classified in some states as surety or another line of insurance) in 50

Edgar Filing: ASSURED GUARANTY LTD - Form 10-K

Table of Contents

U.S. states, the District of Columbia and Puerto Rico. AGC is also licensed as a Class 3 insurer in Bermuda. It is registered as a foreign company in Australia and currently operates through a representative office in Sydney. AGC currently intends for the representative office to conduct activities so that it does not have a permanent establishment in Australia.

AGM is a New York domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 50 U.S. states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands. It operates through a service company in Sydney and has a branch in Tokyo authorized to transact insurance business in Japan.

AGMIC is a New York domiciled insurance company authorized solely to transact mortgage guaranty insurance and reinsurance. It is licensed as a mortgage guaranty insurer in the State of New York and in the District of Columbia and is an approved or accredited reinsurer in the States of California, Illinois and Wisconsin.

FSAIC is an Oklahoma-domiciled insurance company also licensed in New York. The Company is in the process of redomesticating FSAIC to New York.

Insurance Holding Company Regulation

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

Change of Control

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

State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including licensing these companies to transact business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, regulating investments and dividends and, in certain instances, approving policy forms and related materials and approving

Table of Contents

premium rates. State insurance laws and regulations require the Assured Guaranty U.S. Subsidiaries to file financial statements with insurance departments everywhere they are licensed, authorized or accredited to conduct insurance business, and their operations are subject to examination by those departments at any time. The Assured Guaranty U.S. Subsidiaries prepare statutory financial statements in accordance with Statutory Accounting Practices, or SAP, and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Market conduct examinations by regulators other than the domestic regulator are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners.

The Maryland Insurance Administration, the regulatory authority of the domiciliary jurisdiction of AGC, conducts a periodic examination of insurance companies domiciled in Maryland every five years. The Maryland Insurance Administration last issued a Report on Financial Examination with respect to AGC in 2008.

The New York Insurance Department, the regulatory authority of the domiciliary jurisdiction of AGM and AGMIC, conducts a periodic examination of insurance companies domiciled in New York, also at five-year intervals. During 2008, the New York Insurance Department completed its review of each of AGM and AGMIC for the five-year period ended December 31, 2007.

The Oklahoma Insurance Department, the regulatory authority of the domiciliary jurisdiction of FSAIC, conducts a periodic examination of insurance companies domiciled in Oklahoma, typically at three-year intervals. During 2008, it completed its review of FSAIC for the three-year period ended December 31, 2006.

Adverse developments surrounding the Company's industry peers have led state insurance regulators and federal regulators to question the adequacy of the current regulatory scheme governing financial guaranty insurers. See "Item 1A. Risk Factors Risks Related to GAAP and Applicable Law Changes in or inability to comply with applicable law could adversely affect the Company's ability to do business" and " Proposed legislative and regulatory reforms could, if enacted or adopted, result in significant and extensive additional regulation."

State Dividend Limitations

Maryland. One of the primary sources of cash for the payment of debt service and dividends by AGL is the receipt of dividends from AGC. If a dividend or distribution is an "extraordinary dividend," it must be reported to, and approved by, the Insurance Commissioner prior to payment. An "extraordinary dividend" is defined to be any dividend or distribution to stockholders, such as AGUS, the parent holding company of AGC, which together with dividends paid during the preceding twelve months exceeds the lesser of 10% of an insurance company's policyholders' surplus at the preceding December 31 or 100% of AGC's adjusted net investment income during that period. Further, an insurer may not pay any dividend or make any distribution to its shareholders unless the insurer notifies the Insurance Commissioner of the proposed payment within five business days following declaration and at least ten days before payment. The Insurance Commissioner may declare that such dividend not be paid if the Commissioner finds that the insurer's policyholders' surplus would be inadequate after payment of the dividend or could lead the insurer to a hazardous financial condition. AGC declared and paid dividends of \$16.8 million, \$16.5 million and \$12.1 million during 2009, 2008 and 2007, respectively, to AGUS. The maximum amount available during 2009 for the payment of dividends by AGC which would not be characterized as "extraordinary dividends" is approximately \$122.4 million.

Table of Contents

New York. Under the New York Insurance Law, AGM may declare or pay any dividend only out of "earned surplus," which is defined as that portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. Additionally, no dividend may be declared or distributed by either company in an amount which, together with all dividends declared or distributed by it during the preceding twelve months, exceeds the lesser of:

10% of policyholders' surplus as of its last statement filed with the New York Superintendent; or

100% of adjusted net investment income during this period.

Based on AGM's statutory statements for 2009, the maximum amount available for payment of dividends by AGM without regulatory approval over the 12 months following December 31, 2009 is approximately \$85.3 million, subject to certain limitations.

Contingency Reserves

Maryland. In accordance with Maryland insurance law and regulations, AGC maintains a statutory contingency reserve for the protection of policyholders against the effect of adverse economic cycles. The contingency reserve is maintained for each obligation and is equal to the greater of 50% of the premiums written or a percentage of principal guaranteed (which percentage varies from 0.55% to 2.5% depending on the nature of the asset). The contingency reserve is put up over a period of either 15 or 20 years, depending on the nature of the obligation, and then taken down over the same period of time. The contingency reserve may be maintained net of reinsurance. AGC's contingency reserve as of December 31, 2009 was in compliance with these insurance laws and regulations. In 2009, AGC sought and the Maryland Insurance Administration permitted contingency reserve releases of \$52.5 million and \$250 million based on incurred non-municipal losses in 2008.

New York. Under the New York Insurance Law, each of AGM and AGMIC must establish a contingency reserve to protect policyholders against the effect of adverse economic cycles. This reserve is established out of net premiums (gross premiums less premiums returned to policyholders) remaining after the statutory unearned premium reserve is established. The financial guaranty insurer is required to provide a contingency reserve:

with respect to policies written prior to July 1, 1989 in an amount equal to 50% of earned premiums less permitted reductions; and

with respect to policies written on and after July 1, 1989, quarterly on a pro rata basis over a period of 20 years for municipal bonds and 15 years for all other obligations, in an amount equal to the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.50%, depending on the type of obligation guaranteed, until the contingency reserve amount for the category equals the applicable percentage of net unpaid principal.

This reserve must be maintained for the periods specified above, except that reductions by the insurer may be permitted under specified circumstances in the event that actual loss experience exceeds certain thresholds or if the reserve accumulated is deemed excessive in relation to the insurer's outstanding insured obligations. AGM has in the past sought and obtained releases of excessive contingency reserves from the New York Insurance Department. Financial guaranty insurers are also required to maintain reserves for losses and loss adjustment expenses on a case-by-case basis and reserves against unearned premiums. In 2009, AGM sought and the New York Insurance Department permitted a contingency reserve release of \$250 million based on incurred non-municipal losses in 2008. AGM and AGMIC's contingency reserves as of December 31, 2009 were in compliance with these insurance laws and regulations.

Table of Contents

Single and Aggregate Risk Limits

The New York Insurance Law establishes single risk limits for financial guaranty insurers applicable to all obligations issued by a single entity and backed by a single revenue source. For example, under the limit applicable to qualifying ABS, the lesser of:

the insured average annual debt service for a single risk, net of qualifying reinsurance and collateral, or

the insured unpaid principal (reduced by the extent to which the unpaid principal of the supporting assets exceeds the insured unpaid principal) divided by nine, net of qualifying reinsurance and collateral, may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves, subject to certain conditions.

Under the limit applicable to municipal obligations, the insured average annual debt service for a single risk, net of qualifying reinsurance and collateral, may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves. In addition, insured principal of municipal obligations attributable to any single risk, net of qualifying reinsurance and collateral, is limited to 75% of the insurer's policyholders' surplus and contingency reserves. Single-risk limits are also specified for other categories of insured obligations, and generally are more restrictive than those listed for asset-backed or municipal obligations. Obligations not qualifying for an enhanced single-risk limit are generally subject to the "corporate" limit (applicable to insurance of unsecured corporate obligations) equal to 10% of the sum of the insurer's policyholders' surplus and contingency reserves. For example, "triple-X" and "future flow" securitizations, as well as unsecured investor-owned utility obligations, are generally subject to these "corporate" single-risk limits.

The New York Insurance Law also establishes aggregate risk limits on the basis of aggregate net liability insured as compared with statutory capital. "Aggregate net liability" is defined as outstanding principal and interest of guaranteed obligations insured, net of qualifying reinsurance and collateral. Under these limits, policyholders' surplus and contingency reserves must not be less than a percentage of aggregate net liability equal to the sum of various percentages of aggregate net liability for various categories of specified obligations. The percentage varies from 0.33% for certain municipal obligations to 4% for certain non-investment-grade obligations. As of December 31, 2009, each of AGM's and AGC's aggregate net liability was below the applicable limit.

The New York Superintendent has broad discretion to order a financial guaranty insurer to cease new business originations if the insurer fails to comply with single or aggregate risk limits. In practice, the New York Superintendent has shown a willingness to work with insurers to address these concerns.

Risk-to-Capital Requirements

Under the New York Insurance Law, AGMIC's total liability, net of applicable reinsurance, under its aggregate insurance policies may not exceed 25 times its total policyholders' surplus, commonly known as the "risk-to-capital" requirement. As of December 31, 2009, the consolidated risk-to-capital ratio for AGMIC was below the limit.

Investments

The Assured Guaranty U.S. Subsidiaries are subject to laws and regulations that require diversification of their investment portfolio and limit the amount of investments in certain asset categories, such as below investment grade fixed maturity securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, would require divestiture of such non-qualifying investments. The Company believes that the investments made by the Assured Guaranty U.S. Subsidiaries complied with such

Table of Contents

regulations as of December 31, 2009. In addition, any investment must be approved by the insurance company's board of directors or a committee thereof that is responsible for supervising or making such investment.

Operations of the Company's Non-U.S. Insurance Subsidiaries

The insurance laws of each state of the U.S. and of many other countries regulate or prohibit the sale of insurance and reinsurance within their jurisdictions by unlicensed or non-accredited insurers and reinsurers. None of AGUK, AGE, AG Re, AGRO or FSA International are admitted to do business in the United States. The Company does not intend that these companies will maintain offices or solicit, advertise, settle claims or conduct other insurance activities in any jurisdiction in the U.S. where the conduct of such activities would require it to be admitted or authorized.

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

Bermuda

AG Re, AGRO and FSA International, the Company's "Bermuda Subsidiaries," are each an insurance company currently registered and licensed as a "Class 3B (Large Commercial) insurer," a "Class 3A (Small Commercial) insurer" and a "Class 3 insurer," respectively, and each of AG Re and AGRO are also currently registered and licensed as a "long term insurer" under the Insurance Act 1978 of Bermuda. AGC is permitted under a revocable permit granted under the Companies Act 1981 of Bermuda (the "Companies Act") to engage in and carry on trade and business limited to engaging in certain non U.S. financial guaranty insurance and reinsurance outside Bermuda from a principal place of business in Bermuda, subject to compliance with the conditions attached to the permit and relevant provisions of the Companies Act (including having a Bermuda principal representative for the Companies Act purposes, restrictions on activities in Bermuda, publication and filing of prospectuses on public offerings of securities, registration of charges against its assets and certain winding up provisions). AGC is also licensed as a Class 3 insurer in Bermuda.

The Insurance Act 1978 of Bermuda, amendments thereto and related regulations (collectively, the "Insurance Act") impose on insurance companies certain solvency and liquidity standards; certain restrictions on the declaration and payment of dividends and distributions; certain restrictions on the reduction of statutory capital; certain restrictions on the winding up of long term insurers; and certain auditing and reporting requirements and also the need to have a principal representative and a principal office (as understood under the Insurance Act) in Bermuda. The Insurance Act grants to the Bermuda Monetary Authority (the "Authority") the power to cancel insurance licenses, supervise, investigate and intervene in the affairs of insurance companies and in certain circumstances share information with foreign regulators. Class 3, Class 3A and Class 3B insurers are authorized to carry on general insurance business (as understood under the Insurance Act), subject to conditions attached to

Table of Contents

the license and to compliance with minimum capital and surplus requirements, solvency margin, liquidity ratio and other requirements imposed by the Insurance Act. Long term insurers are permitted to carry on long term business (as understood under the Insurance Act) subject to conditions attached to the license and to similar compliance requirements and the requirement to maintain its long term business fund (a segregated fund). Each of AG Re, AGRO and FSA International is required annually to file statutorily mandated financial statements and returns, audited by an auditor approved by the Authority (no approved auditor of an insurer may have an interest in that insurer, other than as an insured, and no officer, servant or agent of an insurer shall be eligible for appointment as an insurer's approved auditor), together with an annual loss reserve opinion of the Authority approved loss reserve specialist and in respect of each of AG Re and AGRO, the required actuary's certificate with respect to the long term business. AGC has an exemption from such filings, subject to certain conditions.

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

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

Restrictions on Dividends and Distributions

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

Under the Insurance Act:

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

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

With respect to the declaration and payment of dividends:

- (a) the insurer may not declare or pay any dividends during any financial year if it would cause the insurer to fail the applicable solvency margin or liquidity ratio (the "relevant margins");
- (b) if the insurer failed to meet any of its relevant margins on the last day of any financial year the insurer may not, without the prior approval of the Authority, declare or pay any dividends during the next financial year; and
- (c) a Class 3, Class 3A or Class 3B insurer which at any time fails to meet its general business solvency margin may not declare or pay any dividend until the failure is rectified, and also in such circumstances the Class 3, Class 3A or Class 3B insurer must report, within 30 days

Table of Contents

after becoming aware of its failure or having reason to believe that such failure has occurred, to the Authority giving particulars of the circumstances leading to the failure and the manner and time in which the Class 3, Class 3A or Class 3B insurer intends to rectify the failure; and

- (d) 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 7 days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet the required margins.

A long-term insurer may not:

- (a) use the funds allocated to its long-term business fund, directly or indirectly, for any purpose other than a purpose of its long-term business except in so far as such payment can be made out of any surplus certified by the insurer's approved actuary to be available for distribution otherwise than to policyholders; and
- (b) declare or pay a dividend to any person other than a policyholder unless the value of the assets of its long-term business fund, as certified by the insurer's approved actuary, exceeds the extent (as so certified) of the liabilities of the insurer's long-term business, and the amount of any such dividend shall not exceed the aggregate of (1) that excess; and (2) any other funds properly available for the payment of dividends being funds arising out of the business of the insurer other than its long-term business.

The Insurance Act was amended in 2008 by the introduction of, among other things, a new classification system of the Class 3 insurance sector. Subject to certain exceptions, all Class 3 insurers were required to submit a re-classification application to the Authority by December 31, 2008. Under the new classification criteria, all Class 3 companies are now classified as a Class 3 insurer, Class 3A (Small Commercial) insurer or Class 3B (Large Commercial) insurer. AG Re is now classified as a Class 3B insurer (effective January 1, 2009) and AGRO is now classified as a Class 3A insurer (effective January 1, 2009). AGC was not required by the Authority to reclassify and remains a Class 3 insurer and FSA International also remains a Class 3 insurer. At present, Class 3A and 3B insurers are subject to the same regulation as Class 3 insurers, although the Company anticipates an increased level of supervision for Class 3A and 3B insurers in the future. In particular, the Company anticipates that the Authority will extend the risk-based capital model currently only applicable to Class 4 insurers to Class 3B insurers in 2010.

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

Certain Other Bermuda Law Considerations

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

Table of Contents

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

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

Special considerations apply to the Company's Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates or working resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate or working resident certificate is available who meets the minimum standards for the position. The Bermuda government has a policy that places a six-year term limit on individuals with work permits, subject to specified exemptions for persons deemed to be key employees. Currently, all of the Company's Bermuda based professional employees who require work permits have been granted work permits by the Bermuda government, including the President and Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Accounting Officer, Chief Risk Officer and Deputy Chief Surveillance Officer.

United Kingdom

General

Since December 1, 2001, the regulation of the financial services industry in the U.K. has been consolidated under the Financial Services Authority ("FSA UK"). In addition, the regulatory regime in the U.K. must comply with certain European Union ("EU") directives binding on all EU member states and notably the Markets in Financial Instruments Directive ("MiFID") which came into effect on November 1, 2007, replacing the Investments Services Directive, largely for the purposes of harmonizing the regulatory regime for investment services and activities across the EEA (see definition of "EEA" under "Passporting" below).

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

Table of Contents

person is authorized by the FSA UK and has been granted permission to carry on that regulated activity, or otherwise falls under an exemption to such regulation.

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

Each of AGUK and AGE is authorized to effect and carry out certain classes of non-life insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). This scope of permission is sufficient to enable AGUK and AGE to effect and carry out financial guaranty insurance and reinsurance. The insurance and reinsurance businesses of AGUK and AGE are subject to close supervision by the FSA UK. In addition to its requirements for senior management arrangements, systems and controls of insurance and reinsurance companies under its jurisdiction, the FSA UK now regards itself as a principles based regulator and is placing an increased emphasis on risk identification and management in relation to the prudential regulation of insurance and reinsurance business in the U.K. The FSA UK's rules include those on the sale of general insurance, known as insurance mediation, the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Insurers (INSPRU) (collectively, the "Prudential Sourcebooks"), which include measures such as risk-based capital adequacy rules, including individual capital assessments. These are intended to align capital requirements with the risk profile of each insurance company and ensure adequate diversification of an insurer's or reinsurer's exposures to any credit risks of its reinsurers. AGE has calculated its minimum required capital according to the FSA's individual capital adequacy criteria and is in compliance. Each of AGUK and AGE also has permission to arrange and advise on deals in financial guaranties which it underwrites.

Assured Guaranty Finance Overseas Ltd. ("AGFOL"), a subsidiary of AGL, is authorized by the FSA UK as a "Category D" company to carry out designated investment business activities in that it may "advise on investments (except on pension transfers and pension opt outs)" relating to most investment instruments. In addition, it may arrange or bring about transactions in investments and make "arrangements with a view to transactions in investments." It should be noted that AGFOL is not authorized as an insurer and does not itself take risk in the transactions it arranges or places, and may not hold funds on behalf of its customers. In 2009, AGFOL applied to the FSA UK for its permissions to be extended to allow it to introduce business to AGC and AGM. Such extension is necessary for AGFOL to arrange financial guaranties underwritten by AGC and AGE, even though AGFOL's role will be limited to acting as a pure introducer of business to AGC and AGE.

Supervision

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

The FSA UK has adopted a principles-based and risk-based approach to the supervision of insurance companies. Under this approach, the FSA UK periodically performs a formal risk assessment of insurance companies or groups carrying on business in the UK which varies in scope according to the risk profile of the insurer. The FSA UK performs its risk assessment broadly, by analyzing

Table of Contents

information which it receives during the normal course of its supervision, such as regular prudential returns on the financial position of the insurance company, or which it acquires through a series of meetings with senior management of the insurance company and by making use of its thematic work. After each risk assessment, the FSA UK will inform the insurer of its views on the insurer's risk profile. This will include details of any remedial action that the FSA UK requires and the likely consequences if this action is not taken.

In discussions with the FSA UK relating to AGUK, the FSA UK has requested that AGUK address its largest risk and certain other exposures, and that additional capital be contributed into the company. AGUK may not write new business until it has taken these measures. The Company believes that under the FSA UK Benchmark capital adequacy model, the FSA UK would require the contribution of approximately £20 million of additional capital. Such capital contribution is pending final resolution of the issues being discussed with the FSA UK. The Company currently is exploring these measures and the need to have two separate insurance subsidiaries in the UK.

In discussions with the FSA UK relating to AGE, the FSA UK has agreed that AGE may insure infrastructure transactions and structured finance transactions. AGE is in compliance with the FSA UK's capital adequacy criteria.

Solvency Requirements

The Prudential Sourcebooks require that non-life insurance companies such as AGUK and AGE maintain a margin of solvency at all times in respect of the liabilities of the insurance company, the calculation of which depends on the type and amount of insurance business a company writes. The method of calculation of the solvency margin (known as the minimum capital requirement) is set out in the Prudential Sourcebooks, and for these purposes, the insurer's assets and liabilities are subject to specified valuation rules. The Prudential Sourcebooks also requires that AGUK and AGE calculate and share with the FSA UK their "enhanced capital requirement" based on risk-weightings applied to assets held and lines of business written. In recent years, the FSA UK has replaced the individual capital assessment for financial guaranty insurers with a "Benchmark" capital adequacy model imposed by the FSA UK. The FSA UK has indicated that it will revert to the individual capital assessment in 2010. Failure to maintain capital at least equal to the higher of the minimum capital requirement and the individual capital assessment is one of the grounds on which the wide powers of intervention conferred upon the FSA UK may be exercised.

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

These solvency requirements will need to be amended by October 2012 in order to implement the European Union's "Solvency II" directive (Directive 2009/138/EC). Among other things, that directive introduces a revised risk-based prudential regime which includes the following features: (i) assets and liabilities are generally to be valued at their market value; (ii) the amount of required economic capital is intended to ensure, with a probability of 99.5%, that regulated firms are able to meet their obligations to policyholders and beneficiaries over the following 12 months; and (iii) reinsurance recoveries will be treated as a separate asset (rather than being netted off the underlying insurance liabilities).

In addition, an insurer (which includes a company conducting only reinsurance business) is required to perform and submit to the FSA UK a group capital adequacy return in respect of its ultimate insurance parent and, if different, its ultimate EEA insurance parent. The calculation at the level of the ultimate EEA insurance parent is required to show a positive result. There is no such requirement in relation to the report at the level of the ultimate insurance parent, although if the report at that level raises concerns, the FSA UK may take regulatory action. Public disclosure of the

Table of Contents

EEA group calculation is also required. The purpose of this rule is to prevent leveraging of capital arising from involvements in other group insurance firms. Given the current structure of the Company, the main aspects of the Company's capital regime in the UK will apply to Assured Guaranty Ireland Holdings Ltd. ("Assumed Guaranty Ireland"), the ultimate EEA insurance parent of AGUK and AGE, and will not apply to the ultimate insurance parent of AGUK or AGE, because it is incorporated in Bermuda, nor to those intermediate holding companies that are incorporated in the U.S., but reporting will be required to the FSA UK up to the ultimate insurance parent.

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

Restrictions on Dividend Payments

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

Reporting Requirements

UK insurance companies must prepare their financial statements under the Companies Act 2006, which requires the filing with Companies House of audited financial statements and related reports. In addition, UK insurance companies are required to file regulatory returns with the FSA UK, which include a revenue account, a profit and loss account and a balance sheet in prescribed forms. Under sections of the Prudential Sourcebooks, audited regulatory returns must be filed with the FSA UK within two months and 15 days of the financial year end (or three months where the delivery of the return is made electronically).

Supervision of Management

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

Change of Control

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

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

Table of Contents

Intervention and Enforcement

The FSA UK has extensive powers to intervene in the affairs of an authorized person, culminating in the ultimate sanction of the removal of authorization to carry on a regulated activity. FSMA imposes on the FSA UK statutory obligations to monitor compliance with the requirements imposed by FSMA, and to investigate and enforce the provisions of FSMA related rules made by the FSA UK such as the Prudential Sourcebooks and breaches of the Conduct of Business Sourcebook generally applicable to authorized persons as a result of the implementation of MiFID.

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

"Passporting"

EU directives allow AGFOL, AGUK and AGE to conduct business in EU states other than the United Kingdom in compliance with the scope of permission granted these companies by FSA UK without the necessity of additional licensing or authorization in other EU jurisdictions. This ability to operate in other jurisdictions of the EU on the basis of home state authorization and supervision is sometimes referred to as "passporting." Insurers may operate outside their home member state either on a "services" basis or on an "establishment" basis. Operating on a "services" basis means that the company conducts permitted businesses in the host state without having a physical presence there, while operating on an establishment basis means the company has a branch or physical presence in the host state. In both cases, a company remains subject to regulation by its home regulator although the company nonetheless may have to comply with certain local rules, such as where the company is operating on an "establishment" basis in which case, the local conduct of business (and other related) rules apply since the host state is regarded as a better place to detect and intervene in respect of suspected breaches relating to the branch within its territory. In such cases, the home state rules apply in respect of "organizational" and "prudential" obligations. In addition to EU member states, Norway, Iceland and Liechtenstein (members of the broader European Economic Area or "EEA") are jurisdictions in which this passporting framework applies. Each
o