ASSURED GUARANTY LTD
Form 10-K/A
October 31, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1 to 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, 2010

Or

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

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

ASSURED GUARANTY LTD.

(Exact name of Registrant as specified in its charter)

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

30 Woodbourne Avenue
Hamilton HM 08 Bermuda
(441) 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	**Name of each exchange on which registered**
Common Shares, $0.01 per share	New York Stock Exchange, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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

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 ý No o

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

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of Common Shares held by non-affiliates of the Registrant as of the close of business on June 30, 2010 was $2,207,050,548 (based upon the closing price of the Registrant's shares on the New York Stock Exchange on that date, which was $13.27). For purposes of this information, the outstanding Common Shares 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 October 24, 2011, 182,221,965 Common Shares, par value $0.01 per share, were outstanding (excludes 76,060 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.

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Assured Guaranty Ltd.
Form 10-K/A
Explanatory Note

This Amendment No. 1 on Form 10-K/A ("Form 10-K/A") amends our annual report on Form 10-K for the year ended December 31, 2010, which was originally filed on March 1, 2011 ("Original Form 10-K"). This amendment is being filed to include restated financial statements as described in Note 2 to the consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data," financial data and related disclosures. The Company is restating its previously issued consolidated financial statements as of and for the years ended December 31, 2010 and 2009 and for each of the quarterly periods in 2010 to reflect the Company's determination that it did not properly account for the elimination of intercompany activity between the Company's insurance subsidiaries and its consolidated financial guaranty variable interest entities. Included in this restatement is the correction of other immaterial errors which affected the third and fourth quarters of 2009 as well as each quarter of 2010. The total effect of this restatement was a decrease to equity of $65.3 million as of December 31, 2010, and decreases to net income of $55.2 million in 2010 and $11.2 million in 2009.

As a result of the errors discussed above, management has now determined that the Company had a material weakness in its internal control over financial reporting at December 31, 2010. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. For a discussion of management's consideration of the Company's disclosure controls and procedures and the material weakness identified, see Part II, Item 9A, *Controls and Procedures* of this Form 10-K/A.

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

Part I Item 6. Selected Financial Data;

Part I Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations;

Part I Item 7A. Quantitative and Qualitative Disclosures About Market Risk;

Part I Item 8. Financial Statements;

Part I Item 9A. Controls and Procedures; and

Part IV Item 15. Exhibits.

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

We expect to file shortly after the date this Form 10-K/A is filed amendments to our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31 and June 30, 2011 to reflect the restatement.

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

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FORWARD-LOOKING STATEMENTS

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

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

- rating agency action, including a ratings downgrade or change in outlook 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, or a change in rating criteria;
- developments in the world's financial and capital markets that adversely affect issuers' payment rates, the Company's loss experience, its ability to cede exposure to reinsurers, its access to capital, its unrealized (losses) gains on derivative financial instruments or its investment returns;
- changes in the world's credit markets, segments thereof or general economic conditions;
- more severe or frequent losses implicating the adequacy of the Company's expected loss;
- 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 insurance and reinsurance opportunities available to the Company;
- deterioration in the financial condition of our reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to us under our reinsurance agreements;
- the possibility that the Company will not realize insurance loss recoveries or damages from originators, sellers, sponsors, underwriters or servicers of residential mortgage-backed securities transactions;
- increased competition;
- changes in applicable accounting policies or practices;
- changes in applicable laws or regulations, including insurance and tax laws;
- other governmental actions;

- difficulties with the execution of the Company's business strategy;
- contract cancellations;
- the Company's dependence on customers;
- loss of key personnel;
- adverse technological developments;
- 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 SEC.

The foregoing review of important factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this Form 10-K/A. 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/A reflect the Company's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to its operations, results of operations, growth strategy and liquidity.

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

CONVENTION

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

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PART II

ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2010	2009(1)	2008	2007	2006
	(dollars in millions, except per share amounts)				
	(restated)	(restated)			
Statement of operations data(2):					
Revenues:					
Net earned premiums(3)	$ 1,186.7	$ 930.4	$ 261.4	$ 159.3	$ 144.8
Net investment income	354.7	259.2	162.6	128.1	111.5
Net realized investment gains (losses)	(2.0)	(32.7)	(69.8)	(1.3)	(2.0)
Realized gains and other settlements on credit derivatives	153.5	163.6	117.6	74.0	73.9
Net unrealized gains (losses) on credit derivatives	(155.1)	(337.8)	38.0	(670.4)	11.8
Fair value gain (loss) on committed capital securities	9.2	(122.9)	42.7	8.3	
Net change in financial guaranty variable interest entities	(273.6)	(1.2)			
Other income	40.1	58.5	0.7	0.5	0.4
Total revenues	1,313.5	917.1	553.2	(301.5)	340.4
Expenses:					
Loss and loss adjustment expenses(3)	412.2	393.8	265.8	5.8	11.3
Amortization of deferred acquisition costs(3)	34.1	53.9	61.2	43.2	45.2
Assured Guaranty Municipal Holdings Inc. acquisition-related expenses	6.8	92.3			
Interest expense	99.6	62.8	23.3	23.5	13.8
Goodwill and settlement of pre-existing relationship		23.3			
Other operating expenses	211.5	174.1	90.6	89.0	80.1

Total expenses		764.2		800.2		440.9		161.5		150.4
Income (loss) before (benefit) provision for income taxes		549.3		116.9		112.3		(463.0)		190.0
Provision (benefit) for income taxes		55.6		32.1		43.4		(159.7)		30.3
Net income (loss)		493.7		84.8		68.9		(303.3)		159.7
Less: Noncontrolling interest of variable interest entities				(1.2)						
Net income (loss) attributable to Assured Guaranty Ltd.	$	493.7	$	86.0	$	68.9	$	(303.3)	$	159.7
Earnings (loss) per share(4):										
Basic	$	2.68	$	0.68	$	0.78	$	(4.38)	$	2.15
Diluted	$	2.61	$	0.66	$	0.77	$	(4.38)	$	2.13
Dividends per share	$	0.18	$	0.18	$	0.18	$	0.16	$	0.14

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	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(dollars in millions, except per share amounts)				
	(restated)	(restated)			
Balance sheet data (end of period)(2):					
Assets:					
Investments and cash	$ 10,849.3	$ 11,012.5	$ 3,643.6	$ 3,147.9	$ 2,469.9
Premiums receivable, net of ceding commission(3)	1,167.6	1,418.2	15.7	27.8	22.8
Ceded unearned premium reserve(3)	821.8	1,078.1	18.9	13.5	4.5
Credit derivative assets	592.9	492.5	147.0	5.5	70.6
Total assets	$ 19,841.9	16,779.4	4,555.7	3,762.9	2,931.6
Liabilities and shareholders' equity:					
Unearned premium reserves(3)	6,972.9	8,381.0	1,233.7	887.2	631.0
Loss and loss adjustment expense reserve(3)	574.4	299.7	196.8	125.6	115.9
Credit derivative liabilities	2,462.8	2,034.6	733.8	623.1	21.6
Long-term debt	1,052.9	1,066.5	347.2	347.1	347.1
Total liabilities	$ 16,108.4	13,270.5	2,629.5	2,096.3	1,280.8
Accumulated other comprehensive income	111.8	141.8	2.9	56.6	41.9
Shareholders' equity attributable to Assured Guaranty Ltd.	3,733.5	3,509.3	1,926.2	1,666.6	1,650.8
Shareholders' equity	3,733.5	3,508.9	1,926.2	1,666.6	1,650.8
Book value per share	20.32	19.06	21.18	20.85	24.44
Consolidated statutory financial information(5):					
Contingency reserve	$ 2,288.0	$ 1,878.8	$ 712.2	$ 582.5	$ 630.9
Policyholders' surplus(6)	2,626.8	2,962.1	1,598.1	1,497.0	1,027.0
Claims paying resources(2)(7)	12,630.0	13,051.0	4,962.0	4,440.0	3,415.0
Additional financial guaranty information (end of period):					
Net in-force business (principal and interest)	$ 927,143	$ 958,265	$ 348,816	$ 302,413	$ 180,174
Net in-force business (principal only)	617,131	640,422	222,722	200,279	132,296

(1) Results of operations of Assured Guaranty Municipal Holdings Inc. ("AGMH") are included for periods beginning July 1, 2009, which we refer to as the Acquisition Date.

(2) Certain prior year balances have been reclassified to conform to the current year's presentation.

(3) Accounting guidance for financial guaranty insurance contracts changed effective January 1, 2009. As a result, amounts are not comparable to periods prior to 2009.

(4) Accounting guidance for the calculation of basic and diluted earnings per share changed effective January 1, 2009. All periods presented have been revised for comparability.

(5) Prepared in accordance with accounting practices prescribed or permitted by insurance regulatory authorities.

(6) Consolidated policyholders' surplus represents the addition of the Company's United States ("U.S.") based statutory surplus and the estimate of U.S. statutory surplus for its Bermuda based statutory entity, Assured Guaranty Re Ltd. ("AG Re").

(7) Claims paying resources is calculated as the sum of statutory policyholders' surplus, statutory contingency reserve, statutory unearned premium reserves, statutory loss and loss adjustment expense ("LAE") reserves, present value of installment premium on financial guaranty and credit derivatives, discounted at 6%, and standby line of credit/stop loss. Total claims paying resources is used by Moody's Investors Service, Inc. ("Moody's") to evaluate the adequacy of capital resources and credit ratings.

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

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

Introduction

Assured Guaranty provides, through its operating subsidiaries, credit protection products to the U.S. and international public finance, infrastructure and structured finance markets. The Company has applied its credit underwriting judgment, risk management skills and capital markets experience to develop insurance, reinsurance and credit derivative products that protect holders of debt instruments and other monetary obligations from defaults in scheduled payments, including scheduled interest and principal payments. The securities insured by the Company include taxable and tax-exempt obligations issued by U.S. state or municipal governmental authorities, utility districts or facilities; notes or bonds issued to finance international infrastructure projects; and asset-backed securities issued by special purpose entities. The Company markets its credit protection products directly to issuers and underwriters of public finance, infrastructure and structured finance securities as well as to investors in such debt obligations. The Company guarantees debt obligations issued in many countries, although its principal focus is on the U.S., Europe and Australia. The Company's business segments are comprised of two principal segments based on whether the contracts were written on a direct or assumed basis.

Financial guaranty contracts written in insurance form provide an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Financial guaranty contracts written in credit derivatives form are generally structured such that the circumstances giving rise to the Company's obligation to make loss payments are similar to those for financial guaranty contracts accounted for as insurance and only occurs upon one or more defined credit events with respect to one or more third party referenced securities or loans. Financial guaranties accounted for as credit derivatives are primarily comprised of credit default swap ("CDS").

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

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

2010 Executive Summary

This executive summary of management's discussion and analysis highlights selected information and may not contain all of the information that is important to readers of the Annual Report. For a complete description of events, trends and uncertainties, as well as the capital, liquidity, credit, operational and market risks and the critical accounting policies and estimates affecting the Company, the Original Form 10-K and this Form 10-K/A should be read together in their entirety. Financial information in Management's Discussion and Analysis has been restated as described in Note 2 of "Item 8. Financial Statements and Supplementary Data." The restatement related primarily to the correction of errors in the elimination of intercompany transactions between the Company's insurance

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subsidiaries and the consolidated financial guaranty variable interest entities ("VIEs"). The restatement resulted in a decrease to net income of $55.2 million in 2010 and a decrease to net income of $11.2 million in 2009 from amounts previously reported in the Original Form 10-K.

Financial Performance

The most significant contributing factor to increases in most of the major components of revenue and expense lines items in 2010 was the inclusion of a full year of AGMH results of operation in 2010 compared with only six months in 2009, as described below. In addition to AGMH's full year contribution to income in 2010, income was positively affected by commutation gains of $49.8 million related to several AGMH ceded reinsurance contracts, and a net tax benefit of $55.8 million due to the filing of an amended tax return for a period prior to the AGMH Acquisition.

In 2010, loss and LAE on financial guaranty contracts accounted for as insurance and losses incurred on credit derivatives (i.e., claim payments plus changes in future expected losses on credit derivatives) were higher than 2009 due primarily to higher U.S. RMBS losses. The changes in assumptions in 2010 (a) reflect a slower recovery in the housing market than had been assumed at the beginning of the year, and (b) include an increase in the assumed initial loss severities for subprime transactions from 70% to 80%. Mitigating the effects of this loss development were increases in the benefit taken for recoveries from breaches of representations and warranties ("R&W"), as the Company's loss mitigation efforts have been increasingly successful in obtaining commitments to repurchase and accessing new loan files.

Credit spreads of underlying CDS obligations and the Company's own credit spreads can have a significant effect on reported net income. In 2010, Alt-A option ARMs and Alt-A first lien transactions generated fair value losses due to wider implied net spreads. This was offset in part by fair value gains in the pooled corporate and other sectors which had tighter implied spreads.

The adoption of a new consolidation model for VIEs on January 1, 2010 affects comparability between 2010 and 2009. On that date, 21 VIEs were consolidated and four were deconsolidated, and throughout 2010, additional VIEs were consolidated and others were deconsolidated. As of December 31, 2010, the Company had consolidated 29 VIEs. In 2010, the Company consolidated VIEs when it had both 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The Company continuously evaluates its power to direct the activities that most significantly impact the economic performance of VIEs that have debt obligations insured by the Company. The Company obtains protective rights under its insurance contracts that give the Company additional controls over a VIE if there is either deterioration of deal performance or in the financial health of the deal servicer. Under accounting principles generally accepted in the United States of America ("GAAP"), the Company is deemed to be the control party typically when its protective rights give it the power to both terminate and replace the deal servicer.

The Company elected the fair value option for all newly consolidated financial guaranty VIEs in 2010, which required that changes in fair value be recorded in the consolidated statements of operations. Consistent with consolidation accounting rules, in 2010, net earned premium of $47.6 million and loss and LAE of $65.9 million associated with consolidated VIEs were eliminated from the reported results of operations. The discussion of each affected revenue and expense line item below describes the financial effect in 2010 of this new accounting model.

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Financial Performance

	Year Ended December 31,		
	2010	2009	Change
	(dollars in millions, except per share amounts)		
	(restated)	(restated)	(restated)
Net earned premiums	$ 1,186.7	$ 930.4	$ 256.3
Net investment income	354.7	259.2	95.5
Realized gains and other settlements on credit derivatives	153.5	163.6	(10.1)
Net unrealized gains (losses) on credit derivatives	(155.1)	(337.8)	182.7
Net change in financial guaranty VIEs	(273.6)	(1.2)	(272.4)
Loss and LAE	(412.2)	(393.8)	(18.4)
AGMH Acquisition-related expenses	(6.8)	(92.3)	85.5
Goodwill and settlement of pre-existing relationship		(23.3)	23.3
Other operating expenses	(211.5)	(174.1)	(37.4)
Net income (loss) attributable to Assured Guaranty Ltd.	493.7	86.0	407.7
Diluted earnings per share	2.61	0.66	1.95

The table above presents selected financial data in accordance with GAAP. In addition to these measures, the Company evaluates several non-GAAP financial measures which are described in " Non-GAAP Financial Measures." One such measure is PVP as described below.

The tables below present new business production ("PVP") and par amount written in the period. The gross PVP represents the present value of estimated future earnings primarily on new financial guaranty insurance and credit derivative contracts written in the period, before consideration of cessions to reinsurers. See " Non-GAAP Financial Measures" for a detailed description of PVP.

Present Value of New Business Production

	Year Ended December 31,	
	2010	2009
	(in millions)	
Public finance U.S.		
Primary markets	$ 285.6	$ 557.1
Secondary markets	42.5	57.1
Public finance non-U.S.		
Primary markets		1.6
Secondary markets	0.7	0.2
Structured finance U.S.	30.2	23.2
Structured finance non-U.S.	3.7	1.0
Total	$ 362.7	$ 640.2

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Financial Guaranty Gross Par Written

	Year Ended December 31,	
	2010	2009
	(in millions)	
Public finance U.S.		
Primary markets	$ 26,195	$ 45,793
Secondary markets	1,567	1,327
Public finance non-U.S.		
Primary markets		466
Secondary markets	34	90
Structured finance U.S.	2,963	2,245
Structured finance non-U.S.		
Total	$ 30,759	$ 49,921

PVP in 2010 decreased due to lower new business production in the new issue tax-exempt U.S. municipal market. During 2010, the Company insured, on a sales date basis, 1,697 U.S. new issue public finance transactions. The Company insured 8.4% of tax-exempt new issue par and 14.0% of tax-exempt new issue transactions originated in the U.S. public finance market during 2010. The decline in the Company's 2010 PVP reflects the decrease in insurable transactions as a result of the Build America Bonds ("BABs") program, rating recalibration and uncertainty about the Company's financial strength rating.

All par written since second quarter of 2009 has been in the direct segment and was primarily U.S. public finance business. In January 2009, Assured Guaranty Corp. ("AGC") finalized a reinsurance agreement with CIFG Assurance North America Inc. to assume a diversified portfolio of financial guaranty contracts totaling approximately $13.3 billion of net par outstanding which was included in the reinsurance segment. AGC received $75.6 million, net of ceding commissions, as of the closing of this transaction and it was entitled to approximately $12.2 million of future installments related to this transaction. There have been no PVP originations in the reinsurance segment since the first quarter of 2009.

The table below reconciles PVP to gross written premiums.

Reconciliation of PVP to Gross Written Premium

	Year Ended December 31,	
	2010	2009
	(in millions)	
Total PVP	$ 362.7	$ 640.2
Less: PVP of credit derivatives		2.4
PVP of financial guaranty insurance	362.7	637.8
Less: Financial guaranty installment premium PVP	33.2	25.4
Total: Financial guaranty upfront GWP	329.5	612.4
Plus: Financial guaranty installment GWP	(107.2)	(55.1)
Total financial guaranty GWP	222.3	557.3
Plus: Other GWP		(0.9)
Total GWP	$ 222.3	$ 556.4

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Business Overview

Since 2008, the Company has been the most active provider of financial guaranty credit protection products. The significant financial distress faced by many of the Company's former competitors since 2007, the Company's ability to maintain investment-grade financial strength ratings throughout the financial crisis, and its acquisition of AGMH in 2009 have all contributed to the Company's position in the market. However, business conditions have been difficult for the entire financial guaranty insurance industry since 2007 and the Company has faced challenges in maintaining its market penetration that continue today.

The recent U.S. economic recession that began in 2007 following the start of a global financial crisis was the longest recession the U.S. has experienced since World War II. The recession combined with the global financial crisis and, in some cases, highly leveraged financial risk, created significant credit and financial losses at many financial institutions, resulting in record levels of failures and government bailout of many global financial institutions and corporations.

Within the financial guaranty industry, financial losses were concentrated in the U.S. RMBS sector and, in particular, on collateralized debt obligations ("CDOs") backed by asset-backed securities ("ABS") containing significant residential mortgage collateral ("CDOs of ABS"). The Company has very limited exposure to CDOs of ABS, with only $32.3 million in net par outstanding as of December 31, 2010. As a result of credit losses on these types of securities, all of the Company's pre-2007 financial guaranty competitors, except Assured Guaranty Municipal Corp. ("AGM"), have had their financial strength ratings downgraded by rating agencies to below investment grade levels, rendering them unable to underwrite new business. The Company's insurance subsidiaries have also been downgraded, principally due to their exposure to U.S. RMBS, but because management substantially avoided insuring CDOs of ABS, AGM and AGC have retained double-A level ratings, which have been acceptable for new business origination.

Although the National Bureau of Economic Research declared that the recession ended in June 2009, housing prices have not consistently stabilized and the ultimate credit experience on U.S. RMBS transactions underwritten from the end of 2004 through 2008 by many financial institutions, including the financial guaranty insurers, remains uncertain. Furthermore, while hiring trends have improved, unemployment levels remain high and may take years to return to pre-recession levels, which may adversely affect Assured Guaranty's loss experience on RMBS. In addition, the economic recession has also affected the credit performance of other markets, including pooled corporate obligations insured by the Company and, more specifically, trust preferred securities ("TruPS") that include subordinated capital and notes issued by banks, mortgage real estate investment trusts and insurance companies.

The U.S. municipal bond market, which has been the Company's principal market since 2007, has also changed significantly during the past three years. Municipal credits have experienced increased budgetary stress, as the amount of sales, income and real estate taxes and other municipal excise or usage revenues collected by most states and municipalities have declined. In addition, many states and towns have significant unfunded pension and retiree health care liabilities that create additional budgetary stress.

The current economic environment has had a significant negative impact on the demand by investors for financial guaranty policies, and it is uncertain when or if demand for financial guaranties will return to their pre-economic crisis level. In particular, there has been limited demand for financial guaranties in 2010 in both the global structured finance and international infrastructure finance markets and also limited new issuance activity in those asset classes in which the Company was previously active. As a result, near-term opportunities for financial guaranties in these two sectors are largely in secondary markets. The Company expects that global structured finance and international infrastructure opportunities will increase in the future as the global economy recovers, issuers return to the capital markets for financings and institutional investors again utilize financial guaranties. Financial guaranties had been an essential component of capital markets financings for international infrastructure projects and asset-based lending, such as for auto loans and leases and equipment financings, but these financings have been largely financed in recent years with relatively short-term bank loans.

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With respect to the Company, during 2010, the Company faced challenges in maintaining its market penetration. The portion of the market that benefited from the Company's insurance product was reduced as a result of a combination of the rating agency recalibration and upgrading of the ratings of municipal bonds; the downgrade of AGC's financial strength rating by Moody's in November 2009; and the issuances under the BABs program that constituted a large volume of the transactions in the U.S. public finance market during the year. In addition, both the uncertainty over the financial strength ratings of the Company's insurance subsidiaries and a negative perception of financial guaranty insurers arising from the financial distress suffered by other companies in the industry during the financial crisis have resulted in lower demand for the Company's insurance product.

In 2010, the Company insured 6.2% of new U.S. municipal issuance based on par. The following table presents additional detail with respect to the Company's penetration into the U.S. public finance market in 2010, 2009 and 2008.

Municipal Market Data

	Year Ended December 31,					
	2010		2009		2008	
	Par	Number of issues	Par	Number of issues	Par	Number of issues
	(dollars in billions, except number of issues)					
New municipal bonds issued	$ 430.8	13,594	$ 406.8	11,412	$ 386.5	10,452
New municipal bonds issued under BABs program	117.3	1,567	64.2	784		
New municipal bonds insured (all financial guaranty)	26.8	1,697	35.4	2,012	72.2	2,564
New municipal bonds insured (AGC and AGM)	26.8	1,697	34.8	2,005	65.7	2,415
New municipal bonds insured under BABs program (AGC and AGM)	4.7	153	1.7	87		

Management believes that, in light of the prevalence of individual rather than institutional investors in the municipal market, the Company is able to provide value not only by insuring the timely payment of scheduled interest and principal amounts when due, but also through its underwriting skills and surveillance capabilities. Because few individual or even institutional investors have the analytic resources to cover all the varied municipal credits in the market, which are estimated to number more than 30,000, through its financial guaranty, the Company effectively consolidates the tasks of credit selection, analysis, negotiation of terms, monitoring and, if necessary, remediation. Management believes this allows retail investors to participate more widely, institutional investors to operate more efficiently and smaller, less well-known issuers to gain market access on a more cost-effective basis. In fact, in 2010, based on par, the Company insured approximately 15% of new U.S. municipal issuance in the single-A rating category, which is its target market, and more than 15% of new U.S. municipal issuance transactions that were $25 million or less in size.

Rating Agency Actions

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

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On September 27, 2011, Standard and Poor's Rating Services ("S&P") published a Research Update in which it placed its ratings on Assured Guaranty on CreditWatch Negative. This action included changing the financial strength ratings of AGC and AGM from AA+ (Negative Outlook) to AA+ (CreditWatch Negative), and the AA (Negative Outlook) rating of AG Re to AA (CreditWatch Negative), signifying that S&P may downgrade such financial strength ratings in the near future. In the Research Update, S&P stated that the CreditWatch placement is due to significant concentration risk in Assured Guaranty's consolidated insured portfolio; the portfolio contains exposures that are not consistent with S&P's new bond insurance rating criteria and breach the "largest obligor test" in such new criteria. S&P published updated criteria in *Bond Insurance Rating Methodology and Assumptions* on August 25, 2011, subsequent to S&P's publication of *Request for Comment: Bond Insurance Criteria* on January 24, 2011. However, according to S&P, based on statements from Assured Guaranty's management that Assured Guaranty intends to take action to mitigate these concentration risks, it is likely such actions, if taken, would support financial strength ratings in the "AA" category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. If the Company were unable to mitigate the concentration risks by creating capital or utilizing additional forms of reinsurance on acceptable terms, S&P may downgrade the ratings of Assured Guaranty, including the financial strength ratings of AGC, AGM and AG Re. See Notes 6, 8 and 13 for the potential impact of a financial strength rating downgrade on the Company and on the insured portfolio.

AGMH Acquisition

On July 1, 2009 ("Acquisition Date"), the Company, through its wholly-owned subsidiary, Assured Guaranty US Holdings Inc. ("AGUS"), purchased AGMH (formerly Financial Security Assurance Holdings Ltd, the "AGMH Acquisition") and, indirectly, its subsidiaries (excluding those involved in AGMH's former Financial Products Business, which was comprised of its guaranteed investment contracts ("GIC") business, its medium term notes business and the equity payment agreements associated with AGMH's leveraged lease business, collectively, the "Financial Products Business") from Dexia Holdings Inc. ("Dexia Holdings"), an indirect subsidiary of Dexia SA and certain of its affiliates (together, "Dexia").The principal operating subsidiary acquired was AGM (formerly Financial Securities Assurance Inc.). The acquired companies are collectively referred to as the "Acquired Companies." The AGMH subsidiaries that conducted AGMH's former financial products business (the "Financial Products Companies") were sold to Dexia Holdings prior to the AGMH Acquisition.

The total purchase price of $821.9 million was paid in a combination of $546 million in cash and 22.3 million AGL common shares. AGL issued approximately 21.8 million common shares to Dexia, all of which Dexia subsequently sold in a secondary offering that closed in March 2010.

The Company acquired 99.9264% of the common stock of AGMH pursuant to a purchase agreement with Dexia and the remaining shares of AGMH common stock from AGMH's former chief executive officer, for 305,017 AGL common shares. The Company also exchanged the deemed investment of Sean McCarthy, who became the Chief Operating Officer of the Company following the closing of the AGMH Acquisition, in 22,306 share units of AGMH under a AGMH nonqualified deferred compensation plan for a deemed investment in 130,000 share units of AGL. The AGL share units will ultimately be distributed to Mr. McCarthy as a corresponding number of AGL common shares at the time he receives a distribution from such nonqualified deferred compensation plan.

In addition, as further described under " Liquidity and Capital Resources Liquidity Arrangements with respect to AGMH's former Financial Products Business," the Company has entered into various agreements with Dexia pursuant to which Dexia has assumed the credit and liquidity risks associated with AGMH's former financial products business.

The cash portion of the purchase price for the AGMH Acquisition was financed through the sale of 44,275,000 common shares and 3,450,000 equity units in a public offering in June 2009. The equity units initially consist of a forward purchase contract and a 5% undivided beneficial ownership interest in $1,000 principal amount 8.50% senior notes due 2014 issued by AGUS ("8.50% Senior Notes"). For a description of the equity units, see " Liquidity and Capital Resources Commitments and Contingencies Long Term Debt Obligations 8.50% Senior Notes." The net proceeds after underwriting expenses and offering costs for these two offerings totaled approximately $616.5 million.

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WLR Funds managed by WL Ross purchased 3,850,000 AGL common shares in the June 2009 public common share offering at the public offering price in the public offering, pursuant to pre-emptive rights.

The Company has agreed with Dexia Holdings to operate the business of AGM in accordance with the key parameters described. These restrictions will limit the Company's operating and financial flexibility.

Generally, for three years after the closing of the AGMH Acquisition:

- Unless AGM is rated below A1 by Moody's and AA- by S&P, it will only insure public finance and infrastructure obligations. An exception applies in connection with the recapture of business ceded by AGM to a third party reinsurer under certain circumstances.

- AGM will continue to be domiciled in New York and be treated as a monoline bond insurer for regulatory purposes.

- AGM will not take any of the following actions unless it receives prior rating agency confirmation that such action would not cause any rating currently assigned to AGM to be downgraded immediately following such action:

  (a) merger;

  (b) issuance of debt or other borrowing exceeding $250 million;

  (c) issuance of equity or other capital instruments exceeding $250 million;

  (d) entry into new reinsurance arrangements involving more than 10% of the portfolio as measured by either unearned premium reserve or net par outstanding; or

  (e) any waiver, amendment or modification of any agreement relating to capital or liquidity support of AGM exceeding $250 million.

- AGM will not repurchase, redeem or pay any dividends in relation to any class of equity interests, unless:

  (a) at such time AGM is rated at least AA- by S&P and Aa3 by Moody's (if such rating agencies still rate financial guaranty insurers generally) and the aggregate amount of such dividends in any year does not exceed 125% of AGMH's debt service for that year; or

  (b) AGM receives prior rating agency confirmation that such action would not cause any rating currently assigned to AGM to be downgraded immediately following such action.

- AGM will not enter into:

  (a) commutation or novation agreements with respect to its insured public finance portfolio involving a payment by AGM exceeding $250 million; or

  (b)

any "cut-through" reinsurance, pledge of collateral security or similar arrangement involving a payment by AGM whereby the benefits of reinsurance purchased by AGM or of other assets of AGM would be available on a preferred or priority basis to a particular class or subset of policyholders of AGM relative to the position of Dexia as policyholder upon the default or insolvency of AGM (whether or not with the consent of any relevant insurance regulatory authority).

This provision does not limit: collateral arrangements between AGM and its subsidiaries in support of intercompany reinsurance obligations; or statutory deposits or other collateral arrangements required by law in connection with the conduct of business in any jurisdiction; or pledges of recoveries or other amounts to secure repayment of amounts borrowed under AGM's "soft capital" facilities or its strip liquidity facility with Dexia Credit Local S.A. ("DCL"). See " Liquidity and Capital Resources Liquidity Arrangements with Respect to AGMH's former Financial Products Business Strip Coverage Facility for the Leveraged Lease Business."

Furthermore, until the date on which (1) a credit rating has been assigned by S&P and Moody's to the GIC issuers (and/or the liabilities of the GIC issuers under the relevant GICs have been separately

rated by S&P and Moody's) which is independent of the financial strength rating of AGM, and (2) the principal amount of GICs in relation to which a downgrade of AGM may result in a requirement to post collateral or terminate such GIC, notwithstanding the existence of a separate rating referred to in (1) of at least AA or higher is below $1.0 billion (the "AGM De-Linkage Date"):

AGM will restrict its liquidity exposure such that no GIC contracts or similar liabilities insured by AGM after the closing shall have terms that require acceleration, termination or prepayment based on a downgrade or withdrawal of any rating assigned to AGM's financial strength, a downgrade of the issuer or obligor under the agreement, or a downgrade of any third party; and

AGM will continue to be rated by each of Moody's and S&P, if such rating agencies still rate financial guaranty insurers generally.

Notwithstanding the above, all such restrictions will terminate on any date after the AGM De-Linkage Date that the aggregate principal amount or notional amount of exposure of Dexia Holdings and any of its affiliates (excluding the exposures relating to the financial products business) to any transactions insured by AGM or any of its affiliates prior to November 14, 2008 is less than $1 billion. Breach of any of these restrictions not remedied within 30 days of notice by Dexia Holdings entitles Dexia Holdings to payment of damages, injunctive relief or other remedies available under applicable law.

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

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

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The following table shows the assets and liabilities of the companies acquired in the AGMH Acquisition ("Acquired Companies") after the allocation of the purchase price to the net assets. The bargain purchase gain resulted from the difference between the purchase price and the net assets' fair value estimates.

	July 1, 2009 (in millions)
Purchase price:	
Cash	$ 546.0
Fair value of common shares issued (based upon June 30, 2009 closing price of AGL common shares)	275.9
Total purchase price	821.9
Identifiable assets acquired:	
Investments	5,950.1
Cash	87.0
Premiums receivable, net of ceding commissions payable	854.1
Ceded unearned premium reserve	1,727.7
Deferred tax asset, net	888.1
Financial guaranty VIE's assets	1,879.4
Other assets	662.6
Total assets	12,049.0
Liabilities assumed:	
Unearned premium reserve	7,286.4
Long-term debt	560.6
Credit derivative liabilities	920.0
Financial guaranty VIE's liabilities	1,878.6
Other liabilities	348.9
Total liabilities	10,994.5
Net assets resulting from AGMH Acquisition	1,054.5
Bargain purchase gain resulting from the AGMH Acquisition	$ 232.6

Due to the unprecedented credit crisis, the Company acquired AGMH at a significant discount to its book value primarily because the fair value of the obligation associated with its financial guaranty insurance contracts was significantly in excess of the obligation's historical carrying value. The Company recorded the fair value of these contracts based on what a hypothetical similarly rated financial guaranty insurer would have charged for each contract at the Acquisition Date and not the actual cash flows under the insurance contract. This resulted in some AGMH acquired contracts having a significantly higher unearned premium reserve and, subsequently, premium earnings compared to the contractual premium cash flows for the policy. On the Acquisition Date, there were limited financial guaranty contracts being written in the structured finance market, particularly in the U.S. RMBS asset class. Therefore, for certain asset classes, significant judgment was required to determine the estimated fair value of the acquired contracts. The Company determined the fair value of these contracts by taking into account the rating of the insured obligation, expectation of loss, estimated risk premiums, sector and term.

For a discussion of significant accounting policies applied to the AGMH Acquisition, the effects of the AGMH Acquisition, and unaudited pro forma results of operations, see Note 4 in "Item 8. Financial Statements and Supplementary Data."

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Results of Operations

Estimates and Assumptions

The Company's consolidated financial statements include amounts that are determined using estimates and assumptions. The actual amounts realized could ultimately be materially different from the amounts currently provided for in the Company's consolidated financial statements. Management believes the items requiring the most inherently subjective and complex estimates to be:

- reserves for losses and LAE, including assumptions for breaches of R&W,
- fair value of credit derivatives, VIE's assets, VIE's liabilities and committed capital securities ("CCS"),
- fair value of net assets acquired in AGMH Acquisition,
- fair value of investments and other-than-temporary impairment ("OTTI"),
- DAC,
- deferred income taxes,
- share-based compensation, and
- premium revenue recognition and premiums receivable.

An understanding of the Company's accounting policies for these items is of critical importance to understanding its consolidated financial statements. See "Item 8. Financial Statements and Supplementary Data" for a discussion of significant accounting policies and fair value methodologies. The following discussion of the consolidated and segment results of operations includes information regarding the estimates and assumptions used for these items and should be read in conjunction with the notes to the Company's consolidated financial statements.

Consolidated Results of Operations

The following table presents summary consolidated results of operations. Comparability of periods presented is affected by the inclusion of AGMH results beginning July 1, 2009 and the adoption of new GAAP accounting requiring the consolidation of certain VIEs previously accounted for as financial guaranty insurance on January 1, 2010 and the adoption of a new financial guaranty accounting model on January 1, 2009.

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Summary Consolidated Results

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
	(restated)	(restated)	
Revenues:			
Net earned premiums	$ 1,186.7	$ 930.4	$ 261.4
Net investment income	354.7	259.2	162.6
Net realized investment gains (losses)	(2.0)	(32.7)	(69.8)
Change in fair value of credit derivatives:			
Realized gains and other settlements	153.5	163.6	117.6
Net unrealized gains	(155.1)	(337.8)	38.0
Net change in fair value of credit derivatives	(1.6)	(174.2)	155.6
Fair value gain (loss) on committed capital securities	9.2	(122.9)	42.7
Net change in financial guaranty VIEs	(273.6)	(1.2)	
Other income	40.1	58.5	0.7
Total revenues	1,313.5	917.1	553.2
Expenses:			
Loss and LAE	412.2	393.8	265.8
Amortization of deferred acquisition costs	34.1	53.9	61.2
AGMH acquisition-related expenses	6.8	92.3	
Interest expense	99.6	62.8	23.3
Goodwill and settlement of pre-existing relationship		23.3	
Other operating expenses	211.5	174.1	90.6
Total expenses	764.2	800.2	440.9
Income (loss) before provision for income taxes	549.3	116.9	112.3
Provision (benefit) for income taxes	55.6	32.1	43.4
Net income (loss)	493.7	84.8	68.9
Less: Noncontrolling interest of VIEs		(1.2)	
Net income (loss) attributable to Assured Guaranty Ltd.	$ 493.7	$ 86.0	$ 68.9

Net Earned Premiums

Net Earned Premiums

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
Financial guaranty:			
Public finance			
Scheduled net earned premiums	$ 385.4	$ 249.3	$ 95.8
Acceleration of premium earnings(1)	91.0	171.5	61.9
Total public finance	476.4	420.8	157.7
Structured finance			

Scheduled net earned premiums(2)	708.9	504.3	98.0
Acceleration of premium earnings(1)	(1.0)	2.3	
Total structured finance	707.9	506.6	98.0
Other	2.4	3.0	5.7
Total net earned premiums	$ 1,186.7	$ 930.4	$ 261.4

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

(2) Excludes $47.6 million in 2010 related to consolidated VIEs.

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2010 compared with 2009: Net earned premiums increased significantly in 2010 compared with 2009, due almost entirely to the inclusion of a full year of AGMH results in 2010 compared to only six months in 2009. The net earned premium contribution from AGMH as a result of the AGMH Acquisition was approximately $1.0 billion for 2010, representing twelve months of activity and $0.6 billion for 2009, representing six months of activity.

Beginning January 1, 2010, net earned premiums excludes the net earned premium related to consolidated VIEs under new VIE consolidation accounting rules. The consolidated VIEs are entities that are established and used in structured finance insured transactions for which the Company is deemed to have a controlling financial interest, as defined by GAAP, due to its ability to terminate and replace the deal's servicer. Net earned premiums associated with the consolidated VIEs in 2010, and therefore eliminated in consolidation, were $47.6 million. AGMH's contribution to net earned premiums of $1.0 billion is already net of the elimination of $46.2 million of AGM's consolidated VIEs. In 2009, four VIEs were consolidated for only the last six months under consolidation rules in effect at that time; however, the related net earned premiums in 2009 were immaterial.

Excluding AGMH's contribution and VIE eliminations, net earned premiums in 2010 compared to 2009 decreased 18.1% due primarily to higher refundings and accelerations in 2009, offset in part by the effect of conforming estimates used to determine inputs to the calculation of the net earned premiums to those used by the Acquired Companies in 2009. Refundings and accelerations, excluding AGMH, were $20.5 million in 2010 compared to $129.7 million in 2009.

2009 compared with 2008: Net earned premium increased significantly in 2009 compared to 2008 due primarily to the inclusion of $0.6 billion from AGMH for the last six months of 2009 and significant refundings and accelerations in 2009 on the legacy AGC and AG Re book of business. Excluding AGMH's contribution to net earned premiums, net earned premium increased 22.3% due primarily to higher refundings and accelerations of legacy AGC and AG Re business of $129.7 million in 2009 compared to $61.9 million in 2008, offset in part by the effects of conforming accounting estimates used to determine inputs to the calculation of the net earned premiums to those used by the Acquired Companies in 2009. Net earned premiums in 2008 were accounted for under a different accounting model as described in Note 6 in Item 8. "Financial Statements and Supplementary Data".

Net Investment Income

Net investment income for 2009 includes six months of income from AGMH investments and 2010 includes a full year of AGMH net investment income and is the primary driver of the increase in net investment income in 2010 and 2009. The AGMH investments were recorded at fair value on the Acquisition Date which resulted in a net premium to par of $58.7 million that is being amortized to net investment income over the remaining term to maturity of each of the investments. Investment income is a function of the yield that the Company earns on invested assets. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the invested assets.

Net Investment Income

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
	(restated)		
Income from fixed maturity securities	$ 359.7	$ 262.4	$ 154.5
Income from short-term investments	3.5	3.2	11.5
Gross investment income	363.2	265.6	166.0
Investment expenses	(8.5)	(6.4)	(3.4)
Net investment income	$ 354.7	$ 259.2	$ 162.6
Average fixed and short term maturity balance(1)	$ 10,348.2	$ 6,875.0	$ 3,555.6

(1) Based on amortized cost.

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2010 compared with 2009: The increase in net investment income in 2010 compared with 2009 is primarily driven by the inclusion of a full year of AGMH in 2010 compared with only six months in 2009. The net investment income contribution from AGMH was $181.5 million in 2010 compared with $91.8 million in 2009. Excluding bonds purchased for risk mitigation purposes, AGMH pre-tax yield was 3.6% as of December 31, 2010, compared to 3.5% as of December 31, 2009. The legacy AGL companies' net investment income increased 3.4% in 2010 due to increased invested assets. Excluding bonds purchased for risk mitigation purposes in the legacy AGL companies' portfolio, pre-tax yield was 3.8% as of December 31, 2010 compared to 3.4% as of December 31, 2009.

2009 compared with 2008: Excluding AGMH'S contribution of $91.8 million in 2009, net investment income decreased 3.0% due to a decrease in book yields. Excluding bonds purchased for risk mitigation purposes, AGMH's pre-tax yield was 3.5% as of December 31, 2009. Excluding bonds purchased for risk mitigation purposes, the legacy AGL companies' pre-tax yield was 3.4%, as of December 31, 2009, compared to 4.6% as of December 31, 2008.

Net Realized Investment Gains (Losses)

The Company adopted a GAAP standard on April 1, 2009, which prescribed bifurcation of credit and non-credit related OTTI net in realized investment gains (losses) and other comprehensive income ("OCI"), respectively. Prior to April 1, 2009, the entire unrealized loss on OTTI securities was recognized in the consolidated statements of operations. Subsequent to that date, only the credit component of the unrealized loss on OTTI securities was recognized in the consolidated statements of operations. The cumulative effect of this change in accounting of $62.2 million was recorded as a reclassification from retained earnings to accumulated OCI ("AOCI"). See Note 10 to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" for the Company's accounting policy on OTTI methodology.

The table below presents the components of consolidated net realized investment gains (losses). The full year 2008 OTTI recorded includes the entire unrealized loss amount for OTTI securities. Net realized gains (losses) in 2010 include $27.4 million in OTTI primarily attributable to asset-backed, mortgage-backed and municipal securities, some of which the Company intends to sell. The 2010 OTTI represents the sum of the credit component of the securities for which we have determined the unrealized loss to be other-than-temporary and the entire unrealized loss related to securities the Company intends to sell.

Net Realized Investment Gains (Losses)

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
OTTI losses	$ (44.6)	$ (74.0)	$ (71.3)
Less: portion of OTTI loss recognized in other comprehensive income	(17.2)	(28.2)	
Subtotal	(27.4)	(45.8)	(71.3)
Realized gains on investment portfolio	31.1	27.6	5.7
Realized losses on investment portfolio	(5.0)	(15.2)	(4.2)
Other invested assets	(0.7)	0.7	
Total realized investment gains (losses)	$ (2.0)	$ (32.7)	$ (69.8)

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The table below provides the components of OTTI.

OTTI Components

	Year Ended December 31		
	2010	**2009**	**2008**
		(in millions)	
Intent to sell	$ (4.0)	$ (13.4)	$ (4.1)
Credit component of OTTI securities	(23.4)	(32.4)	(67.2)
Total	$ (27.4)	$ (45.8)	$ (71.3)

Net Change in Fair Value of Credit Derivatives

The Company views the credit derivatives it insures as an extension of the Company's financial guaranty business; however, they qualify as derivatives under U.S. GAAP, and are reported at fair value, with changes in fair value included in earnings. Changes in fair value of credit derivatives occur because of changes in interest rates, credit spreads, credit ratings of the referenced obligations, the Company's credit spread and other market factors. The unrealized gains (losses) on credit derivatives excluding losses incurred, is expected to reduce to zero as the exposure approaches its maturity date, unless there is a payment default on the exposure or early termination. In the event that the Company terminates a credit derivative contract prior to maturity, the resulting gain or loss will be realized through net change in fair value of credit derivatives. Changes in the fair value of the Company's credit derivatives that do not reflect actual or expected claims or credit losses have no impact on the Company's statutory claims paying resources, rating agency capital or regulatory capital positions.

In the table below, the Company presents the components of net change in fair value of credit derivatives in three components: credit derivative revenues which represent the net premiums and fees received and receivable for credit protection sold net of premiums and fees on credit protection purchased by the Company, losses incurred which represents the change in economic losses expected to be incurred and which have or will result in cash outflows under the credit derivative contracts, and additional unrealized gains and losses representing the excess of fair value over the credit derivative revenues and losses incurred. The consolidated statement of operations presents premiums received and receivable and losses paid and payable as realized gains and other settlements and a separate component of unrealized gains (losses).

Net Change in Fair Value of Credit Derivatives

	Year Ended December 31		
	2010	**2009**	**2008**
		(in millions)	
	(restated)		
Credit derivative revenues	$ 210.3	$ 170.2	$ 117.2
Losses incurred on credit derivatives	(209.4)	(238.7)	(43.3)
Net unrealized gains (losses), excluding losses incurred	(2.5)	(105.7)	81.7
Net change in fair value	$ (1.6)	$ (174.2)	$ 155.6

Credit derivative revenues: Credit derivative revenues increased significantly in 2010 and 2009 due to the inclusion of AGMH results beginning July 1, 2009; however, the Company currently expects AGMH's portfolio of credit derivatives to produce a declining amount of fee revenue as AGMH will not insure any new structured finance obligations. AGMH contributed $100.4 million and $56.6 million of credit derivative revenues in 2010 and 2009, respectively. AGMH net par outstanding as of December 31, 2010 and 2009 was $53.1 billion and $58.0 billion, respectively. Legacy AGL companies' credit derivative revenues have also declined in 2010 and 2009 due to the lack of new business originations to offset the reduction of in-force business. Legacy AGL companies' net par outstanding as of December 31, 2010 and 2009 was $57.9 billion and $65.7 billion, respectively.

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Losses incurred on credit derivatives: The legacy AGL companies' portfolio of credit derivatives was the primary driver of losses incurred in the credit derivative portfolio as AGMH contributed $24.6 million in 2010 and ($47.0) million in 2009. AGMH losses incurred in 2010 were driven primarily by losses for an energy power plant securitization, while legacy AGL companies' losses incurred in 2010 were driven by losses in first lien Alt-A transactions primarily as a result of stabilization of early stage delinquency rates, which had originally been assumed to decline in prior assumptions. Higher severity assumptions for first lien transactions and an increased weighting of the pessimistic scenario also contributed to losses incurred.

In 2009, AGMH expected losses improved for most transactions resulting in a net benefit, while legacy AGL companies' credit derivatives experienced deterioration in expected losses primarily in first lien Alt-A transactions.

Net Change in Fair Value of Credit Derivatives

Asset Type	**Year Ended December 31, 2010**	**2009**	**2008**
		(in millions)	
	(restated)		
Financial Guaranty Direct:			
Pooled corporate obligations:			
CLOs/CBOs	$ 2.1	$ 152.3	$ 263.3
Synthetic investment grade pooled corporate	(1.9)	(24.0)	3.8
Synthetic high yield pooled corporate	11.4	95.1	
TruPS CDOs	59.1	(44.1)	7.5
Market value CDOs of corporate obligations	(0.1)	(0.6)	48.7
Commercial real estate			7.5
CDO of CDOs (corporate)		6.3	(3.4)
Total pooled corporate obligations	70.6	185.0	327.4
U.S. RMBS:			
Alt-A option ARMs and Alt-A first lien	(280.4)	(429.3)	(194.9)
Subprime first lien (including net interest margin)	(10.1)	4.9	185.4
Prime first lien	(8.3)	(85.2)	5.2
Closed end second lien and home equity lines of credit ("HELOCs")	(2.0)	11.6	0.3
Total U.S. RMBS	(300.8)	(498.0)	(4.0)
Commercial mortgage-backed securities ("CMBS")	10.1	(41.1)	79.0
Other(1)	65.6	6.7	(336.7)
Total Financial Guaranty Direct	(154.5)	(347.4)	65.7
Financial Guaranty Reinsurance	(0.6)	9.6	(27.7)
Total	$ (155.1)	$ (337.8)	$ 38.0

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

Net change in fair value of credit derivatives: In 2010, U.S. RMBS unrealized fair value losses were generated primarily in the Alt-A option ARM and Alt-A first lien sector due to wider implied net spreads. The wider implied net spreads were a result of internal ratings downgrades on several of these Alt-A option ARM and Alt-A first lien policies. The unrealized fair value gain within the TruPS CDO and Other asset classes resulted from tighter implied spreads. These transactions were pricing above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC and AGM increased, which management refers to as the CDS spread on AGC or AGM, the implied spreads that the Company would expect to receive on these transactions decreased. During 2010, AGC's and AGM's spreads widened. However, gains due to the widening of the Company's own CDS spreads were offset by declines in fair value resulting from price changes and the internal downgrades of several U.S. RMBS policies referenced above.

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In 2009, AGC's and AGM's credit spreads narrowed, but remained relatively wide compared to pre-2007 levels. Offsetting the benefit attributable to AGC's and AGM's wide credit spread were declines in fixed income security market prices primarily attributable to widening spreads in certain markets as a result of the continued deterioration in credit markets and some credit rating downgrades. The higher credit spreads in the fixed income security market were primarily due to continuing market concerns over the most recent vintages of Subprime RMBS and trust-preferred securities.

The 2008 gain included an amount of $4.1 billion associated with the change in AGC's credit spread, which widened substantially from 180 basis points at December 31, 2007 to 1,775 basis points at December 31, 2008. Management believed that the widening of AGC's credit spread was due to the correlation between AGC's risk profile and that experienced currently by the broader financial markets and increased demand for credit protection against AGC as the result of its increased business volume. Offsetting the gain attributable to the significant increase in AGC's credit spread were declines in fixed income security market prices primarily attributable to widening spreads in certain markets as a result of the continued deterioration in credit markets and some credit rating downgrades, rather than from delinquencies or defaults on securities guaranteed by the Company. The higher credit spreads in the fixed income security market were due to the lack of liquidity in the high yield CDO and CLO markets as well as continuing market concerns over the most recent vintages of subprime RMBS and CMBS.

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

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

	As of December 31,		
	2010	2009	2008
	(dollars in millions)		
	(restated)		
Quoted price of CDS contract (in basis points):			
AGC	804	634	1,775
AGM	650	541(1)	N/A
Fair value of credit derivatives:			
Before considering implication of the Company's credit spreads	$ (5,539.3)	$ (5,830.8)	$ (4,734.4)
After considering implication of the Company's credit spreads	$ (1,869.9)	$ (1,542.1)	$ (586.8)

(1) The quoted price of CDS contract for AGM was 1,047 basis points at July 1, 2009.

The gain or loss created by the estimated fair value adjustment will rise or fall based on estimated market pricing and may not be an indication of ultimate claims. Fair value is defined as the amount at which an asset or liability could be bought or sold in a current transaction between willing parties. The Company enters into credit derivative contracts which require the Company to make payments upon the occurrence of certain defined credit events (such as failure to pay or bankruptcy) relating to an underlying obligation (generally a fixed income obligation). The Company's credit derivative exposures are substantially similar to its financial guaranty insurance contracts and provide for credit protection against payment default. They are contracts that are generally held to maturity. The unrealized gains and losses on credit derivatives will reduce to zero as the exposure approaches its maturity date, unless

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there is a payment default on the exposure or early termination. See " Liquidity and Capital Resources Liquidity Requirements and Resources".

The Company does not typically exit its credit derivative contracts and there are typically no quoted prices for its instruments or similar instruments. Observable inputs other than quoted market prices exist; however, these inputs reflect contracts that do not contain terms and conditions similar to those in the credit derivatives issued by the Company. Therefore, the valuation of the Company's credit derivative contracts requires the use of models that contain significant, unobservable inputs. Thus, management believes that the Company's credit derivative contract valuations are in Level 3 in the fair value hierarchy. See Note 7 in "Item 8. Financial Statements and Supplementary Data".

The fair value of these instruments represents the difference between the present value of remaining contractual premiums charged for the credit protection and the estimated present value of premiums that a comparable financial guarantor would hypothetically charge for the same protection at the balance sheet date. The fair value of these contracts depends on a number of factors including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of the referenced entities, the Company's own credit risk and remaining contractual flows.

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

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

Market conditions at December 31, 2010 were such that market prices for the Company's CDS contracts were not generally available. Where market prices were not available, the Company used proprietary valuation models that used both unobservable and observable market data inputs such as various market indices, credit spreads, the Company's own credit spread, and estimated contractual payments to estimate the fair value of its credit derivatives. These models are primarily developed internally based on market conventions for similar transactions that we have observed in the past. There has been very limited new issuance activity on this market over the past two to three years.

Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts. These terms differ from more standardized credit derivatives sold by companies outside of the financial guaranty industry. The non-standard terms include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points and does not exit derivatives it sells for credit protection purposes. Because of these terms and conditions, the fair value of the Company's credit derivatives may not reflect the same prices observed in an actively traded market of CDS that do not contain terms and conditions similar to those observed in the financial guaranty market. The Company's models and the related assumptions are continuously reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely and relevant market information.

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

The table below presents management's estimates of expected claim payments related to BIG credit derivatives. Expected loss to be paid represents management's estimate of the present value of

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future net claim payments, not the current fair value of the contract, and includes a net benefit for breaches of R&W of approximately $70.2 million at December 31, 2010 and $37.6 million at December 31, 2009.

The Company considers R&W claim recoveries in determining the fair value of its CDS contracts. When determining the fair value of our CDS contracts as of December 31, 2010, we determined that in the hypothetical exit market, a market participant would ascribe $0 value to this benefit because we have had limited recovery experience to date.

The assumptions used to calculate the present value of expected losses for credit derivatives (credit impairment) are consistent with the assumptions used for BIG transactions accounted for as financial guaranty insurance as discussed below in " Loss and LAE Reserves".

Rollforward of Expected Losses on Credit Derivatives

	Expected Losses as of December 31, 2009	Development and Accretion of Discount	Less: Paid Losses	Expected Losses as of December 31, 2010
		(in millions)		
U.S. RMBS:				
First lien:				
Alt-A first lien	$ 141.0	$ 68.0	$ (6.4)	$ 215.4
Alt-A options ARM	131.4	(2.9)	23.4	105.1
Subprime	73.3	51.7	14.8	110.2
Total first lien	345.7	116.8	31.8	430.7
Second lien:				
Closed end second lien	44.8	4.5	18.4	30.9
Total second lien	44.8	4.5	18.4	30.9
Total U.S. RMBS	390.5	121.3	50.2	461.6
TruPS	60.3	33.6	3.6	90.3
Other structured finance	29.3	61.9	(10.9)	102.1
Public finance	0.3	0.9	1.2	
Total	$ 480.4	$ 217.7	$ 44.1	$ 654.0

Fair Value Gain (Loss) on Committed Capital Securities

CCS consist of committed preferred trust securities which allow AGC and AGM to issue preferred stock to trusts created for the purpose of issuing such securities that invest in high quality investments and selling put options to AGC and AGM in exchange for cash. The fair value of CCS represents the difference between the present value of remaining expected put option premium payments under AGC's CCS (the "AGC CCS Securities") and AGM Committed Preferred Trust Securities (the "AGM CPS Securities") agreements and the value of such estimated payments based upon the quoted price for such premium payments as of the reporting dates (see Note 7 in "Item 8. Financial Statements and Supplementary Data"). Changes in fair value of this financial instrument are included in the consolidated statement of operations. The significant market inputs used are observable; therefore, the Company classified this fair value measurement as Level 2.

The driver of fair value gain (loss) on CCS is the CDS spread of AGC and AGM. Widening of these CDS spreads results in gains while tightening results in losses. See "Effect of Company's Credit Spread on Credit Derivatives Fair Value" table in " Net Change in Fair Value of Credit Derivatives" for information on AGC and AGM CDS spreads.

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Change in Unrealized Gain (Loss) on Committed Capital Securities

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
AGC CCS Securities	$ 7.1	$ (47.1)	$ 42.7
AGM CPS Securities	2.1	(75.8)	
Total	$ 9.2	$ (122.9)	$ 42.7

Other Income

Other income is comprised of recurring income items such as foreign exchange revaluation of premiums receivable, income on assets acquired in refinancing transactions, ancillary fees on financial guaranty policies such as consent and processing fees as well as other revenue items on financial guaranty insurance and reinsurance contracts such as negotiated settlements and commutation gains on re-assumptions of previously ceded business.

In 2010, the primary components of other income were commutation gains on reassumptions of previously ceded AGMH business. In 2009, AGMH other income was primarily comprised of foreign exchange gain on revaluation of premiums receivable and AGMH's settlement to a previously consolidated financial guaranty VIE at a gain of $29.2 million.

Other Income

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
Foreign exchange gain (loss) on revaluation of premium receivable	$ (28.9)	$ 27.1	$
Settlement from previously consolidated financial guaranty VIEs		29.2	
Reinsurance cessions of OTTI(1)	8.5		
Commutation gains (losses)	49.8	(1.8)	
Other	10.7	4.0	0.7
Total other income	$ 40.1	$ 58.5	$ 0.7

(1) Reinsurance cessions of OTTI of investment assets associated with a BIG financial guaranty contract.

Amortization of Deferred Acquisition Costs

Amortization of DAC in 2010 included $9.3 million of amortization of AGMH ceding commission income and none of AG Re's amortization of ceding commission expense from the intercompany cession from AGMH. In 2009, amortization of DAC included $10.0 million in AG Re amortization of ceding commission expense related to the first six months of cessions from AGMH (i.e., prior to the AGMH Acquisition). AGMH DAC was written off on July 1, 2009 and therefore AGMH did not contribute a significant amount to the amortization of DAC in 2009. The decrease in 2009 compared to 2008 was due primarily to the elimination of commission expense related to business assumed from AGMH which is now eliminated as an intercompany expense.

Acquisition costs associated with insurance and reinsurance contracts that vary with and are directly related to the production of new business are deferred and then amortized in relation to earned premiums. These costs include direct and indirect expenses such as ceding commissions, brokerage expenses and the cost of underwriting and marketing personnel. Regarding direct insurance, management uses its judgment in determining which origination related costs should be deferred, as well as the percentage of these costs to be deferred. The Company annually conducts a study to determine which costs and how much acquisition costs should be deferred. Ceding commissions received on premiums the Company cedes to other reinsurers reduce acquisition costs.

Anticipated losses, LAE and the remaining costs of servicing the insured or reinsured business are considered in determining the recoverability of acquisition costs. Acquisition costs associated with credit

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derivative products are expensed as incurred. When an insured issue is retired early the remaining related DAC is expensed. Upon the adoption of the new accounting standard that became effective January 1, 2009 ceding commissions associated with future installment premiums on assumed and ceded business were recorded in DAC.

AGMH Acquisition-Related Expenses

In 2010, AGMH Acquisition-related expenses were primarily comprised of consulting fees related to integration efforts. In 2009, AGMH Acquisition-related expenses were primarily comprised of severance costs, real estate, legal, consulting and relocation fees.

Expenses related to the AGMH Acquisition are summarized below.

	Year Ended December 31,	
	2010	2009
	(in millions)	
Severance costs	$	$ 40.4
Professional services	6.8	32.8
Office consolidation		19.1
Total	$ 6.8	$ 92.3

Interest Expense

The following table presents the components of interest expense. Interest expense in 2010 includes a full year of interest expense for AGMH debt and 2009 includes only the last six months.

Interest Expense

	Year Ended December 31,		
	2010	2009	2008
		(in millions)	
AGUS:			
7.0% Senior Notes	$ 13.5	$ 13.5	$ 13.5
8.50% Senior Notes	16.0	8.3	
Series A Enhanced Junior Subordinated Debentures	9.8	9.8	9.8
AGUS total	39.3	31.6	23.3
AGMH:			
6 7/8% QUIBS	7.2	3.6	
6.25% Notes	15.4	7.7	
5.60% Notes	6.1	3.1	
Junior Subordinated Debentures	24.9	12.4	
Notes Payable	6.7	4.4	
AGMH total	60.3	31.2	
Total	$ 99.6	$ 62.8	$ 23.3

Goodwill and Settlement of Pre-Existing Relationships

The Company reassessed the recoverability of goodwill in third quarter 2009 subsequent to the AGMH Acquisition. AGMH had historically been the most significant ceding reinsurance company within the Company's assumed book of business. As a result of the AGMH Acquisition, which significantly diminished the Company's potential near future market for assuming reinsurance, combined with the continued credit crisis, which has adversely affected the fair value of the Company's in-force policies, management determined that the full carrying value of $85.4 million of goodwill on its books prior to the AGMH Acquisition should be written off in third quarter 2009.

In addition, the Company recognized a $232.6 million bargain purchase gain on the AGMH Acquisition and also recorded a charge of $170.5 million to settle pre-existing relationships. The

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bargain purchase gain represents the excess of the fair value of net assets acquired over the purchase price. As disclosed in Note 4 in "Item 8. Financial Statements and Supplementary Data", the Company and AGMH had a pre-existing reinsurance relationship in which the Company assumed financial guaranty risks ceded to it by AGMH. This pre-existing relationship was effectively settled at fair value. The Company determined fair value as the difference between contractual premiums and the Company's estimate of current market premiums.

Goodwill and Settlement of Pre-Existing Relationships

	Year Ended December 31, 2009 (in millions)
Goodwill impairment	$ 85.4
Gain on bargain purchase of AGMH	(232.6)
Settlement of pre-existing relationships	170.5
Total	$ 23.3

Other Operating Expenses

Other operating expenses increased in 2010 compared to 2009 and in 2009 compared to 2008 mainly due to the addition of other operating expenses of AGMH, which was acquired on July 1, 2009. Since the AGMH Acquisition, management has integrated various systems, processes and profit and cost centers to achieve economies of scale. Compensation is a primary component of other operating expenses and varies primarily based on headcount and performance driven long-term incentive compensation. Headcount as of December 31, 2010, December 31, 2009 and December 31, 2008 was 347, 350 and 160 employees, respectively. Operating expenses are also affected by deferral rates on costs that are policy acquisition costs. Deferral rates in 2010, 2009 and 2008 were 19%, 13% and 18%.

Loss and LAE (Contracts Accounted for as Insurance)

Loss and LAE recognition for financial guaranty contracts accounted for as insurance is dependent on the amount of deferred premium revenue on a contract by contract basis. Loss and LAE is only expensed when losses exceed deferred premium revenue. See Note 6 of Item 8. "Financial Statements and Supplementary Data" for a full discussion of the Company's loss recognition policy. AGMH's contribution to loss and LAE was $198.9 million in 2010 compared to $62.6 million in 2009 and includes loss expense recognized due to the amortization of deferred premium revenue as well as loss development and the effects of changes in discount rates. AGMH losses in 2010 were driven by losses in first lien U.S. RMBS transactions and include loss development due to continued trends in early stage delinquencies and increased severity rates as well as loss recognition due to normal amortization of deferred premium revenue. Mitigating 2010 losses in the first lien portfolio were increased estimated benefits from recoveries of R&W putbacks as the Company has gained access to more loan files and attained increasing success in obtaining commitments from transaction parties. Losses for the six months ended December 31, 2009 were primarily driven by losses in U.S. RMBS first lien transactions.

Excluding AGMH loss and LAE, the increase in 2009 compared to 2008 is primarily driven by loss development on U.S. RMBS exposures in first lien sectors as well as increased losses in the municipal and insurance securitization sector. Loss and LAE increases in 2009 were mainly related to rising delinquencies, defaults and foreclosures in RMBS transactions, as well as a public finance transaction experiencing cash shortfalls. Loss and LAE in the Company's mortgage guaranty segment increased during 2009 primarily due to a loss settlement related to an arbitration proceeding.

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The following table presents the loss and LAE by sector for financial guaranty contracts accounted for as insurance that was recorded in the consolidated statements of operations. Amounts presented are net of reinsurance and net of the benefit for recoveries from breaches of R&W. Change in expected losses for financial guaranty contracts accounted for as derivatives are a component of the fair value recorded on such contracts and are not included in the tables below.

Loss and LAE Reported
for Financial Guaranty Contracts Accounted for as Insurance

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
	(restated)	(restated)	
Financial Guaranty:			
U.S. RMBS:			
First lien:			
Prime first lien	$ 0.9	$	$ 0.1
Alt-A first lien	37.4	21.1	5.1
Alt-A option ARM	272.4	43.0	4.5
Subprime	85.9	13.1	9.3
Total first lien	396.6	77.2	19.0
Second lien:			
Closed end second lien	5.2	47.8	56.8
HELOC	(20.4)	154.1	156.0
Total second lien	(15.2)	201.9	212.8
Total U.S. RMBS	381.4	279.1	231.8
Other structured finance	63.6	31.4	14.2
Public finance	32.9	71.2	19.2
Total financial guaranty	477.9	381.7	265.2
Other	0.2	12.1	0.6
Subtotal	478.1	393.8	265.8
Effect of consolidating financial guaranty VIEs	(65.9)		
Total loss and LAE	$ 412.2	$ 393.8	$ 265.8

In order to assess the economic development of net future payments of expected losses, the Company prepares a rollforward of expected losses to be paid which present the components of the change in expected future payments from period to period. The components of the change in expected loss to be paid are: payments made during the period and loss development. Loss development reflects the changes in loss experience due to changes in assumptions, discount rates and accretion.

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

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The following table presents the expected loss related to financial guaranty contracts, accounted for as insurance. Amounts in the table below are net of reinsurance and net of estimated benefits for recoveries from breaches of R&W.

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

	Expected Loss to be Paid as of December 31, 2009	Development and Accretion of Discount	Less: Paid Losses	Expected Loss to be Paid as of December 31, 2010
	(in millions)			
	(restated)	(restated)		(restated)
U.S. RMBS:				
First lien:				
Prime first lien	$	$ 1.4	$	$ 1.4
Alt-A first lien	204.4	40.0	60.0	184.4
Alt-A option ARM	545.2	160.1	181.6	523.7
Subprime	77.5	126.3	3.4	200.4
Total first lien	827.1	327.8	245.0	909.9
Second lien:				
CES	199.3	(73.3)	69.4	56.6
HELOCs	(206.6)	(86.3)	512.8	(805.7)
Total second lien	(7.3)	(159.6)	582.2	(749.1)
Total U.S. RMBS	819.8	168.2	827.2	160.8
Other structured finance	115.7	52.0	8.6	159.1
Public finance	130.9	9.6	51.6	88.9
Total	$ 1,066.4	$ 229.8	$ 887.4	$ 408.8

	Loss and LAE Reserve as of December 31, 2008	Change in Accounting (2)	Expected Loss to be Paid as of January 1, 2009	Expected Loss of AGMH at July 1, 2009	Development and Accretion of Discount	Less: Paid Losses	Expected Loss to be Paid as of December 31, 2009
	(in millions)						
				(restated)	(restated)		(restated)
U.S. RMBS:							
First lien:							
Prime first lien	$ 2.4	$ (2.4)	$	$	$	$	$
Alt-A first lien	5.4	4.4	9.8	223.1	(27.5)	1.0	204.4
Alt-A option ARM	4.5	8.7	13.2	477.6	55.1	0.7	545.2
Subprime	15.1	(5.4)	9.7	72.4	(2.0)	2.6	77.5
Total first lien	27.4	5.3	32.7	773.1	25.6	4.3	827.1
Second lien:							
Closed end second lien	39.5	(0.7)	38.8	227.4	34.2	101.1	199.3
HELOC	(43.1)	(13.0)	(56.1)	347.3	30.3	528.1	(206.6)

Total second lien	(3.6)	(13.7)	(17.3)	574.7	64.5	629.2	(7.3)
Total U.S. RMBS	23.8	(8.4)	15.4	1,347.8	90.1	633.5	819.8
Other structured finance	51.7	7.1	58.8	9.9	47.8	0.8	115.7
Public finance	38.3	(4.0)	34.3	81.2	38.6	23.2	130.9
Total	$ 113.8	$ (5.3)	$ 108.5	$ 1,438.9	$ 176.5	$ 657.5	$ 1,066.4

(1) Amounts include all expected payments whether or not the insured transaction VIE is consolidated. Amounts exclude expected losses in the other segment of $2.1 million as of December 31, 2010 and $2.1 million as of December 31, 2009.

(2) Change in accounting for financial guaranty contracts related to the adoption of a new financial guaranty insurance accounting standard effective January 1, 2009.

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The Company's expected LAE for mitigating claim liabilities were $17.2 million and $12.6 million as of December 31, 2010 and 2009, respectively. The Company used weighted-average risk free rates ranging from 0% to 5.34% and 0.07% to 5.21% to discount expected losses as of December 31, 2010 and 2009, respectively.

The table below provides a reconciliation of the Company's 2010 expected loss to be paid to expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (1) the contra-paid, because the payments have been made but have not yet been expensed, (2) for transactions with a net expected recovery, the addition of claim payments that have been made (and therefore are not included in the expected to be paid) that are expected to be recovered in the future (and therefore have also reduced the expected to be paid), and (3) loss reserves, which have already been established and therefore expensed but not yet paid.

Reconciliation of Expected Loss to be Paid and Net Expected Loss to be Expensed

	As of December 31, 2010 (restated) (in millions)	
Net expected to be paid	$	408.8
Less: net expected to be paid for financial guaranty VIEs		49.2
Total		359.6
Contra-paid, net		121.3
Salvage and subrogation recoverable, net(1)		903.0
Loss and LAE reserve, net(2)		(550.0)
Net expected to be expensed(3)	$	833.9

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

(2) Represents loss and LAE reserves, net of reinsurance recoverable on unpaid losses, excluding $2.1 million in reserves for other segment.

(3) Excludes $211.9 million as of December 31, 2010 related to consolidated financial guaranty VIEs.

The following table provides a schedule of the expected timing of the income statement recognition of financial guaranty insurance PV of net expected losses, pre-tax. This table excludes amounts related to consolidated VIEs.

Expected Timing of Financial Guaranty Insurance Loss Recognition
As of December 31, 2010

	Net Expected Loss to be Expensed(1) (restated) (in millions)	
2011 (January 1 March 31)	$	51.6
2011 (April 1 June 30)		42.3
2011 (July 1 September 30)		34.0
2011 (October 1 December 31)		28.7
2012		84.9
2013		78.9
2014		68.8

2015		54.9
2016-2020		185.2
2021-2025		95.4
2026-2030		55.0
After 2030		54.2
Total present value basis(2)(3)		833.9
Discount		785.5
Total future value	$	1,619.4

(1) These amounts reflect the Company's estimate as of December 31, 2010 of expected losses to be expensed and are not included in loss and LAE reserve because these losses are less than deferred premium revenue determined on a contract-by-contract basis.

(2) Balances represent discounted amounts.

(3) The effect of consolidating financial guaranty VIEs resulted in a reduction of $211.9 million in net expected loss and LAE, excluding accretion of discount.

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

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

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

Mortgage borrowers that are a single payment or less behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how much of the currently performing loans will default and when by first converting the projected near term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates, then projecting how the conditional default rates will develop over time. Loans that are defaulted pursuant to the conditional default rate after the liquidation of currently delinquent loans represent defaults of currently performing loans. A conditional default rate is the outstanding principal amount of loans defaulting in a given month divided by the remaining outstanding amount of the whole pool of loans (or "collateral pool balance"). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal repayments, and defaults.

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

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

The Company projects the overall future cash flow from a collateral pool by adjusting the payment stream from the principal and interest contractually due on the underlying mortgages for (a) the

collateral losses it projects as described above, (b) assumed voluntary prepayments and (c) recoveries for breaches of R&W as described above. The Company then applies an individual model of the structure of the transaction to the projected future cash flow from that transaction's collateral pool to project the Company's future claims and claim reimbursements for that individual transaction. Finally, the projected claims and reimbursements are discounted to a present value using a risk free rate and compared to the unearned premium reserve for that transaction. As noted above, the Company runs several sets of assumptions regarding potential mortgage collateral performance, or scenarios, and probability weights them. See Note 6 in "Item 8. Financial Statements and Supplementary Data" for loss and loss adjustment expense reserve accounting.

Year-End 2010 U.S. RMBS Loss Projections

The Company's RMBS projection methodology assumes that the housing and mortgage markets will eventually recover. So, to the extent it retains the shape of the curves and probability weightings used in the previous quarter, such action reflects the Company's assumption that the recovery in the housing and mortgage markets will be delayed by another three months.

The scenarios used to project RMBS collateral losses in first quarter of 2010, with the exception of an increase to the subprime loss severity, were the same as those employed at year-end 2009. In the second quarter 2010, the Company changed how scenarios were run as compared to the first quarter 2010 to reflect the Company's view that it was observing the beginning of an improvement in the housing and mortgage markets. In the third and fourth quarters 2010 early stage delinquencies did not trend down as much as the Company had anticipated in the second quarter, so the Company adjusted its curves to reflect the observed early stage delinquencies. Additionally, in the fourth quarter 2010, due to the Company's concerns about the timing and strength of any recovery in the mortgage and housing markets, the probability weightings were adjusted to reflect a somewhat more pessimistic view. Also in the fourth quarter 2010 the Company increased its initial subprime loss severity assumption to reflect recent experience. Taken together, the changes in the assumptions between year-end 2009 and 2010 had the effect of (a) reflecting a slower recovery in the housing market than had been assumed at the beginning of the year, and (b) increasing the assumed initial loss severities for subprime transactions from 70% to 80%.

The methodology the Company used to project RMBS losses prior to the AGMH Acquisition on July 1, 2009 was somewhat different that that used by AGMH. For the third quarter 2009 the Company adopted a methodology to project RMBS losses that was based on a combination of the approaches used by the Company and AGMH prior to the AGMH Acquisition, and so the methodology used prior to the third quarter 2009 was somewhat different than that described here. In addition, the methodology the Company used prior to the third quarter 2009 was applied to the smaller pre-acquisition RMBS portfolio. For these reasons, the results are not directly comparable. However, that Company's second lien methodology utilized many of the same assumptions as those used at year-end 2009 and year-end 2010, so the year-end 2008 second lien assumptions are provided below for comparative purposes.

The Company also used generally the same methodology to project the credit received by the RMBS issuers for recoveries on R&W at year-end 2010 as it used at year-end 2009. Other than the impact of the increase in projected collateral defaults on the calculation of the credit, the primary difference relates to the population of transactions the Company included in its R&W credits. The Company added credits for four second lien transactions: two transactions where a capital infusion of the provider of the R&W made that company financially viable in the Company's opinion and another two transactions where the Company obtained loan files that it had not previously concluded were accessible. The Company added credits for four first lien transactions where it has obtained loan files that it had not previously concluded were accessible. The Company also refined some of the assumptions in the calculation of the amount of the credit to reflect actual experience.

Prior to the AGMH Acquisition the Company used a similar approach to calculate a credit for recoveries on R&W, but on its smaller RMBS portfolio and based on its projected losses at the time. The credit at year-end 2008 related primarily to two second lien transactions.

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

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

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

The Company believes the primary variables impacting its expected losses in second lien RMBS transactions are the amount and timing of future losses in the collateral pool supporting the transactions and the amount of loans repurchased for breaches of R&W. Expected losses are also a function of the structure of the transaction, the voluntary prepayment rate (typically also referred to as conditional prepayment rate of the collateral); the interest rate environment; and assumptions about the draw rate and loss severity. These variables are: interrelated, difficult to predict and subject to considerable volatility. If actual experience differs from the Company's assumptions, the losses incurred could be materially different from the estimate. The Company continues to update its evaluation of these exposures as new information becomes available.

The following table shows the Company's key assumptions used in its calculation of estimated expected losses for the Company's direct vintage 2004 2008 second lien U.S. RMBS as of December 31, 2010, December 31, 2009 and December 31, 2008:

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

HELOC Key Variables	As of December 31, 2010	As of December 31, 2009	As of December 31, 2008
Plateau conditional default rate	4.2 22.1%	10.7 40.0%	19.0 21.0%
Final conditional default rate trended down to	0.4 3.2%	0.5 3.2%	1.0%
Expected period until final conditional default rate	24 months	21 months	15 months
Initial conditional prepayment rate	3.3 17.5%	1.9 14.9%	7.0 8.0%
Final conditional prepayment rate	10%	10%	7.0 8.0%
Loss severity	98%	95%	100%
Initial draw rate	0.0 6.8%	0.1 2.0%	1.0 2.0%

Closed end second lien Key Variables	As of December 31, 2010	As of December 31, 2009	As of December 31, 2008
Plateau conditional default rate	7.3 27.1%	21.5 44.2%	34.0 36.0%
Final conditional default rate trended down to	2.9 8.1%	3.3 8.1%	3.4 3.6%
Expected period until final conditional default rate achieved	24 months	21 months	24 months
Initial conditional prepayment rate	1.3 9.7%	0.8 3.6%	7.0%
Final conditional prepayment rate	10%	10%	7%
Loss severity	98%	95%	100%

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

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

As of December 31, 2010, in the base scenario, the conditional default rate (the "plateau conditional default rate") was held constant for one month. (At year-end 2009 the plateau default rate was held constant for four months.) Once the plateau period has ended, the conditional default rate is assumed to gradually trend down in uniform increments to its final long-term steady state conditional default rate. In the base scenario, the time over which the conditional default rate trends down to its final conditional default rate is eighteen months (compared to twelve months at year-end 2009). Therefore, the total stress period for second lien transactions would be twenty-four months which is comprised of: five months of delinquent data, a one month plateau period and an eighteen month decrease to the steady state conditional default rate. This is three month longer than the 21 months used at year-end 2009.The long-term steady state conditional default rates are calculated as the constant conditional default rates that would have yielded the amount of losses originally expected at underwriting. When a second lien loan defaults, there is generally very low recovery. Based on current expectations of future performance, the Company reduced its loss recovery assumption to 2% from 5% (thus increasing its severity from 95% to 98%) in the third quarter of 2010.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected (which is a function of the conditional default rate and the loan balance over time) as well as the amount of excess spread (which is the excess of the interest paid by the borrowers on the underlying loan over the amount of interest and expenses owed on the insured obligations). In the base case, the current conditional prepayment rate is assumed to continue until the end of the plateau before gradually increasing to the final conditional prepayment rate over the same period the conditional default rate decreases. For transactions where the initial conditional prepayment rate is higher than the final conditional prepayment rate, the initial conditional prepayment rate is held constant. The final conditional prepayment rate is assumed to be 10% for both HELOC and closed end second lien transactions. This level is much higher than current rates, but lower than the historical average, which reflects the Company's continued uncertainty about performance of the borrowers in these transactions. This pattern is consistent with how the Company modeled the conditional prepayment rate at year-end 2009. To the extent that prepayments differ from projected levels it could materially change the Company's projected excess spread.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices, and HELOC draw rates (the amount of new advances provided on existing HELOCs expressed as a percent of current outstanding advances). For HELOC transactions, the draw rate is assumed to decline from the current level to the final draw rate over a period of three months. The final draw rates were assumed to range from 0.0% to 3.4%.

In estimating expected losses, the Company modeled and probability weighted three possible conditional default rate curves applicable to the period preceding the return to the long-term steady state conditional default rate. Given that draw rates have been reduced to levels below the historical average and that loss severities in these products have been higher than anticipated at inception, the

Company believes that the level of the elevated conditional default rate and the length of time it will persist is the primary driver behind the likely amount of losses the collateral will suffer (before considering the effects of repurchases of ineligible loans). The Company continues to evaluate the assumptions affecting its modeling results.

At year-end 2010, the Company's base case assumed a one month conditional default rate plateau and an 18 month ramp down. Increasing the conditional default rate plateau to 4 months and keeping the ramp down at 18 months would increase the expected loss by approximately $132.7 million for HELOC transactions and $18.2 million for closed end second lien transactions. On the other hand, keeping the conditional default rate plateau at one month but decreasing the length of the conditional default rate ramp down to the 12 month assumption used at year-end 2009 would decrease the expected loss by approximately $75.6 million for HELOC transactions and $10.4 million for closed end second lien transactions.

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

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

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

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are delinquent, in foreclosure or where the loan has been foreclosed and the RMBS issuer owns the underlying real estate).An increase in non-performing loans beyond that projected in the previous period is one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various delinquency categories. The Company arrived at its liquidation rates based on data in loan performance and assumptions about how delays in the foreclosure process may ultimately affect the rate at which loans are liquidated. The following table shows the Company's liquidation assumptions for various delinquency categories as of December 31, 2010 and 2009. The liquidation rate is a standard industry

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measure that is used to estimate the number of loans in a given aging category that will default within a specified time period. The Company projects these liquidations to occur over two years.

	December 31, 2010	December 31, 2009
30 59 Days Delinquent		
Alt-A first lien	50%	50%
Alt-A option ARM	50	50
Subprime	45	45
60 89 Days Delinquent		
Alt-A first lien	65	65
Alt-A option ARM	65	65
Subprime	65	65
90 Bankruptcy		
Alt-A first lien	75	75
Alt-A option ARM	75	75
Subprime	70	70
Foreclosure		
Alt-A first lien	85	85
Alt-A option ARM	85	85
Subprime	85	85
Real Estate Owned		
Alt-A first lien	100	100
Alt-A option ARM	100	100
Subprime	100	100

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

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

Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions have reached historical high levels and the Company is assuming that these historical high levels will continue for another year. The Company determines its initial loss severity based on actual recent experience. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning in December 2011, and in the base scenario decline over two years to 40%.

The following table shows the Company's key assumptions used in its calculation of expected losses for the Company's direct vintage 2004 2008 first lien U.S. RMBS as of December 31, 2010 and

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December 31, 2009. The Company was not projecting any losses for first lien RMBS deals as of December 31, 2008:

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

	As of December 31, 2010	As of December 31, 2009
Alt-A First Lien		
Plateau conditional default rate	2.6% 42.2%	1.5% 35.7%
Intermediate conditional default rate	0.4% 6.3%	0.2% 5.4%
Final conditional default rate	0.1% 2.1%	0.1% 1.8%
Initial loss severity	60%	60%
Initial conditional prepayment rate	0.0% 36.5%	0.0% 20.5%
Final conditional prepayment rate	10%	10%
Alt-A option ARM		
Plateau conditional default rate	11.7% 32.7%	13.5% 27.0%
Intermediate conditional default rate	1.8% 4.9%	2.0% 4.1%
Final conditional default rate	0.6% 1.6%	0.7% 1.4%
Initial loss severity	60%	60%
Initial conditional prepayment rate	0.0% 17.7%	0.0% 3.5%
Final conditional prepayment rate	10%	10%
Subprime		
Plateau conditional default rate	9.0% 34.6%	7.1% 29.5%
Intermediate conditional default rate	1.3% 5.2%	1.1% 4.4%
Final conditional default rate	0.4% 1.7%	0.4% 1.5%
Initial loss severity	80%	70%
Initial conditional prepayment rate	0.0% 13.5%	0.0% 12.0%
Final conditional prepayment rate	10%	10%

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

The ultimate performance of the Company's first lien RMBS transactions remains highly uncertain and may be subject to considerable volatility due to the influence of many factors, including the level and timing of loan defaults, changes in housing prices and other variables. The Company will continue to monitor the performance of its RMBS exposures and will adjust the loss projections for those transactions based on actual performance and management's estimates of future performance.

In estimating expected losses, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast recovery is expected to occur. The primary variable when modeling sensitivities was how quickly the conditional default rate returned to its modeled equilibrium, which was defined as 5% of the current conditional default rate. The Company also stressed conditional prepayment rates and the speed of recovery of loss severity rates. In a somewhat more stressful environment than that of the base case, where the conditional default rate recovery was more gradual and the final conditional prepayment rate was 15% rather than 10%, the Company's expected losses would increase by approximately $8.7 million for Alt-A first liens, $104.8 million for Option ARMs, $18.5 million for subprime and $0.1 million for prime transactions. In an even more stressful scenario where the conditional default rate plateau was extended 3 months (to be 27 months long) before the same more gradual conditional default rate recovery and loss severities were assumed to recover over 4 rather than 2 years (and subprime loss severities were assumed to

recover only to 55%), the Company's expected losses would increase by approximately $35.5 million for Alt-A first liens, $191.3 million for Option ARMs, $204.6 million for subprime and $0.8 million for prime transactions. The Company also considered a scenario where the recovery was faster than in its base case. In this scenario, where the conditional default rate plateau was 3 months shorter (21 months, effectively assuming that liquidation rates would improve) and the conditional default rate recovery was more pronounced, the Company's expected losses would decrease by approximately $24.4 million for Alt-A first liens, $78.0 million for Option ARMs, $37.2 million for subprime and $0.5 million for prime transactions.

Breaches of Representations and Warranties

The Company is pursuing reimbursements for breaches of R&W regarding loan characteristics. Performance of the collateral underlying certain first and second lien securitizations has substantially differed from the Company's original expectations. The Company has employed several loan file diligence firms and law firms as well as devoted internal resources to review the mortgage files surrounding many of the defaulted loans. As of December 31, 2010, the Company had performed a detailed review of approximately 37,500 second lien and 15,500 first lien defaulted loan files, representing nearly $2.8 billion in second lien and $5.7 billion in first lien outstanding par of defaulted loans underlying insured transactions. The Company identified approximately 33,100 second lien transaction loan files and approximately 14,500 first lien transaction loan files that breached one or more R&W regarding the characteristics of the loans, such as misrepresentation of income or employment of the borrower, occupancy, undisclosed debt and non-compliance with underwriting guidelines at loan origination. The Company continues to review new files as new loans default and as new loan files are made available to it. The Company generally obtains the loan files from the originators or servicers (including master servicers). In some cases, the Company requests loan files via the trustee, which then requests the loan files from the originators and/or servicers. On second lien loans, the Company requests loan files for all charged-off loans. On first lien loans, the Company requests loan files for all severely (60+ days) delinquent loans and all liquidated loans. Recently, the Company started requesting loan files for all the loans (both performing and non-performing) in certain deals to limit the number of requests for additional loan files as the transactions season and loans charge-off, become 60+ days delinquent or are liquidated. (The Company takes no repurchase credit for R&W breaches on loans that are expected to continue to perform.) Following negotiations with the providers of the R&W, as of December 31, 2010, the Company had reached agreement for providers to repurchase $323 million of second lien and $205 million of first lien loans. The $323 million for second lien loans represents the calculated repurchase price for 3,120 loans and the $205 million for first lien loans represents the calculated repurchase price for 547 loans. The repurchase proceeds are paid to the RMBS transactions and distributed in accordance with the payment priorities set out in the transaction agreements, so the proceeds are not necessarily allocated to the Company on a dollar-for-dollar basis. Proceeds projected to be reimbursed to the Company on transactions where the Company has already paid claims are viewed as a recovery on paid losses. For transactions where the Company has not already paid claims, projected recoveries reduce projected loss estimates. In either case, projected recoveries have no effect on the amount of the Company's exposure. These amounts reflect payments made pursuant to the negotiated transaction agreements and not payments made pursuant to legal settlements. See "Recovery Litigation" below for a description of the related legal proceedings the Company has commenced.

The Company has included in its net expected loss estimates as of December 31, 2010 an estimated benefit from repurchases of $1.6 billion. The amount of benefit recorded as a reduction of expected losses was calculated by extrapolating each transaction's breach rate on defaulted loans to projected defaults. The Company did not incorporate any gain contingencies or damages paid from potential litigation in its estimated repurchases. The amount the Company will ultimately recover related to contractual R&W is uncertain and subject to a number of factors including the counterparty's ability to pay, the number and loss amount of loans determined to have breached R&W and, potentially, negotiated settlements or litigation recoveries. As such, the Company's estimate of recoveries is uncertain and actual amounts realized may differ significantly from these estimates. In arriving at the expected recovery from breaches of R&W, the Company considered the credit worthiness of the provider of the R&W, the number of breaches found on defaulted loans, the success

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rate in resolving these breaches with the provider of the R&W and the potential amount of time until the recovery is realized.

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

The following table represents the Company's total estimated recoveries netted in expected loss to be paid, from defective mortgage loans included in certain first and second lien U.S. RMBS loan securitizations that it insures. The Company had $1.6 billion of estimated recoveries from ineligible loans as of December 31, 2010, of which $0.9 billion is reported in salvage and subrogation recoverable, $0.5 billion is netted in loss and LAE reserves and $0.2 billion is netted in unearned premium reserve. The Company had $1.2 billion of estimated recoveries from ineligible loans as of December 31, 2009 of which $0.3 billion was reported in salvage and subrogation recoverable, $0.6 billion netted in loss and LAE reserves and $0.3 billion included within the Company's unearned premium reserve portion of its stand-ready obligation reported on the Company's consolidated balance sheet.

Rollforward of Estimated Benefit from Recoveries of Representation and Warranty Breaches, Net of Reinsurance

	# of Insurance Policies as of December 31, 2010 with R&W Benefit Recorded	Outstanding Principal and Interest of Policies with R&W Benefit Recorded as of December 31, 2010	Future Net R&W Benefit at December 31, 2009	R&W Development and Accretion of Discount during Year	R&W Recovered During 2010(1)	Future Net R&W Benefit at December 31, 2010
	(dollars in millions)					
Prime first lien	1	$ 57.1	$	$ 1.1	$	$ 1.1
Alt-A first lien	17	1,882.8	64.2	16.8		81.0
Alt-A option ARM	11	1,909.8	203.7	166.6	61.0	309.3
Subprime	1	228.7		26.8		26.8
Closed end second lien	4	444.9	76.5	101.7		178.2
HELOC	13	2,969.8	828.7	303.5	128.1	1,004.1
Total	47	$ 7,493.1	$ 1,173.1	$ 616.5	$ 189.1	$ 1,600.5

# of Insurance Policies as of December 31, 2009 with R&W Benefit Recorded	Outstanding Principal and Interest of Policies with R&W Benefit Recorded as of December 31, 2009	Future Net R&W Benefit at December 31, 2008	R&W Development and Accretion of Discount during Year	R&W Recovered During 2009	R&W Benefit from AGMH Acquisition	Future Net R&W Benefit at December 31, 2009

		(dollars in millions)					
Prime first lien		$	$	$	$	$	$
Alt-A first lien	17	1,821.5		64.2			64.2
Alt-A option ARM	9	2,437.5		41.2	16.7	179.2	203.7
Subprime							
Closed end second lien	2	224.0		76.5			76.5
HELOC	11	4,384.5	49.3	618.9	66.9	227.4	828.7
Total	39	$ 8,867.5	$ 49.3	$ 800.8	$ 83.6	$ 406.6	$ 1,173.1

(1) Gross amount recovered is $217.6 million.

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

	Year Ended December 31, 2010	
	(in millions)	
Inclusion of new deals with breaches of R&W during period	$	170.5
Change in recovery assumptions as the result of additional file review and recovery success		253.5
Estimated increase in defaults that will result in additional breaches		188.1
Accretion of discount on balance		4.4
Total	$	616.5

The $616.5 million R&W development and accretion of discount during 2010 in the above table primarily resulted from an increase in loan file reviews, increased success rates in putting back loans, and increased projected defaults on loans with breaches of R&W. This development primarily can be broken down into changes in calculation inputs, changes in the timing and amounts of defaults and the inclusion of additional deals during the year for which the Company expects to obtain these benefits. The Company has reflected eight additional transactions during 2010 which resulted in approximately $170.5 million of the development. The remainder of the development primarily relates to changes in assumptions and additional projected defaults. The accretion of discount was not a primary driver of the development. Changes in assumptions generally relate to an increase in loan file reviews and increased success rates in putting back loans. The Company assumes that recoveries on HELOC and closed end second lien loans will occur in two to four years from the balance sheet date depending on the scenarios and that recoveries on Alt-A, Option ARM and Subprime loans will occur as claims are paid over the life of the transactions. The $800.8 million development and accretion of discount during 2009 in the above table primarily resulted from an increase in loan file reviews and extrapolation of expected recoveries. The Company assumes in its base case that recoveries on HELOC and CES loans will occur in two years from the balance sheet date and that recoveries on Alt-A, Option ARM and Subprime loans will occur as claims are paid over the life of the transactions.

Recoveries for Breaches of Representations and Warranties

On April 14, 2011, Assured Guaranty reached a comprehensive agreement with Bank of America Corporation and its subsidiaries, including Countrywide Financial Corporation and its subsidiaries (collectively, "Bank of America"), regarding their liabilities with respect to 29 RMBS transactions insured by Assured Guaranty, including claims relating to reimbursement for breaches of R&W and historical loan servicing issues ("Bank of America Agreement"). Of the 29 RMBS transactions, eight are second lien transactions and 21 are first lien transactions. The Bank of America Agreement covers Bank of America-sponsored securitizations that AGM or AGC has insured, as well as certain other securitizations containing concentrations of Countrywide-originated loans that AGM or AGC has insured. The transactions covered by the Bank of America Agreement had a gross par outstanding of $5.2 billion ($4.8 billion net par outstanding) as of March 31, 2011, or 29% of Assured Guaranty's total below investment grade ("BIG") RMBS net par outstanding.

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

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

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of assets required to be posted may increase or decrease from time to time, as determined by rating agency requirements.

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

"XXX" Life Insurance Transactions

The Company has insured $2.1 billion of net par in "XXX" life insurance reserve securitization transactions based on discrete blocks of individual life insurance business. In these transactions the monies raised by the sale of the bonds insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The monies are invested at inception in accounts managed by third-party investment managers. In order for the Company to incur an ultimate net loss on these transactions, adverse experience on the underlying block of life insurance policies and/or credit losses in the investment portfolio would need to exceed the level of credit enhancement built into the transaction structures. In particular, such credit losses in the investment portfolio could be realized in the event that circumstances arise resulting in the early liquidation of assets at a time when their market value is less than their intrinsic value.

The Company's $2.1 billion net par of XXX life insurance transactions includes, as of December 31, 2010, includes a total of $882.5 million rated BIG, comprising Class A-2 Floating Rate Notes issued by Ballantyne Re p.l.c and Series A-1 Floating Rate Notes issued by Orkney Re II p.l.c ("Orkney Re II"). The Ballantyne Re and Orkney Re II XXX transactions had material amounts of their assets invested in U.S. RMBS transactions. Based on its analysis of the information currently available, including estimates of future investment performance provided by the current investment manager, and projected credit impairments on the invested assets and performance of the blocks of life insurance business at December 31, 2010, the Company's gross expected loss, prior to reinsurance or netting of unearned premium, for its two BIG XXX insurance transactions was $73.8 million and its net reserve was $57.7 million.

Public Finance Transactions

The Company has insured $458 billion of public finance transactions across a number of different sectors. Within that category, $4.5 billion is rated BIG, and the company is projecting $88.9 million of expected losses across the portfolio.

Of these losses, $25.8 million are expected in relation to eight student loan transactions with $592.4 million of net par outstanding. The largest of these losses was $18.5 million related to a transaction backed by a pool of government-guaranteed student loans ceded to AG Re by another monoline insurer. The guaranteed bonds were issued as variable rate demand obligations that have since been "put" to the bank liquidity providers and now bear a high rate of interest. Further the underlying loan collateral has performed below expectations. The Company has estimated its losses based upon a weighting of potential outcomes.

The Company has also projected estimated losses of $33 million on its total net par outstanding of $513.2 million on Jefferson County Alabama Sewer Authority exposure. This estimate is based primarily on the Company's view of how much debt the Authority should be able to support under certain probability- weighted scenarios.

The Company has projected expected loss to be paid of $14.0 million on one transaction from 2000 backed by manufactured housing loans with a net par of $67.1 million. The Company insures a total of $358.8 million net par of securities backed by manufactured housing loans, a total of $240.5 million rated BIG.

The Company has $164.5 million of net par exposure to the city of Harrisburg, Pennsylvania, of which $93.2 million is BIG. The Company has paid $2.9 million in net claims to date, and expects a full recovery.

Other Sectors and Transactions

The Company continues to closely monitor other sectors and individual financial guaranty insurance transactions it feels warrant the additional attention, including, as of December 31, 2010, its commercial real estate exposure of $584.2 million of net par, its TruPS collateralized debt obligations ("CDOs") exposure of $1.1 billion, its insurance on a financing of 78 train sets (one train set being composed of eight cars) for an Australian commuter railway for $616.5 million net par and its U.S. health care exposure of $21.4 billion of net par.

Recovery Litigation

As of March 1, 2011, the Company had filed lawsuits with regard to four second lien U.S. RMBS transactions insured by the Company, alleging breaches of R&W both in respect of the underlying loans in the transactions and the accuracy of the information provided to the Company, and failure to cure or repurchase defective loans identified by the Company to such persons. These transactions consist of the ACE Securities Corp. Home Equity Loan Trust, Series 2006-GP1, the ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL2 and the ACE Securities Corp. Home Equity Loan Trust, Series 2007-SL3 transactions (in each of which the Company has sued DB Structured Products, Inc. and its affiliate ACE Securities Corp.) and the SACO I Trust 2005-GP1 transaction (in which the Company has sued JPMorgan Chase & Co.'s affiliate EMC Mortgage Corporation).

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

The Company has also filed a lawsuit against UBS Securities LLC and Deutsche Bank Securities, Inc., as underwriters, as well as several named and unnamed control persons of IndyMac Bank, FSB and related IndyMac entities, with regard to two U.S. RMBS transactions that the Company had insured, alleging violations of state securities laws and breach of contract, among other claims. One of these transactions (referred to as IndyMac Home Equity Loan Trust 2007-H1) is a second lien

transaction and the other (referred to as IndyMac IMSC Mortgage Loan Trust 2007-HOA-1) is a first lien transaction.

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

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

In September 2010, the Company, together with TD Bank, National Association and Manufacturers and Traders Trust Company, filed a complaint in the Court of Common Pleas of Dauphin County against The Harrisburg Authority, The City of Harrisburg, Pennsylvania, and the Treasurer of the City in connection with certain Resource Recovery Facility bonds and notes issued by the Authority, alleging, among other claims, breach of contract by both the Authority and the City, and seeking remedies including an order of mandamus compelling the City to satisfy its obligations on the defaulted bonds and notes and the appointment of a receiver for the Authority. Acting on its own, the City Council of Harrisburg filed a purported bankruptcy petition for the City on October 11, 2011. The Company plans to challenge the bankruptcy petition filed by the City Council.

Provision for Income Tax

Deferred income tax assets and liabilities are established for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted rates in effect for the year in which the differences are expected to reverse. Such temporary differences relate principally to unrealized gains and losses on investments and credit derivatives, DAC, reserves for losses and LAE, unearned premium reserves and statutory contingency reserves. As of December 31, 2010 and December 31, 2009, the Company had a net deferred income tax asset of $1,259.1 million and $1,163.0 million, respectively. As of December 31, 2010, the Company has foreign tax credits, which expire in 2018, of $22.3 million from its AGMH Acquisition. Section 382 of the Internal Revenue Code limits the amounts of credits the Company may utilize each year. Management believes sufficient future taxable income exists to realize the full benefit of these foreign tax credits. At December 31, 2009, the Company established a valuation allowance of $7.0 million. Management has reassessed the likelihood of realization of all of its deferred tax assets. As of December 31, 2010, management believes sufficient future taxable income exists to offset the Assured Guaranty Re Overseas Ltd. ("AGRO") net operating loss and has released the $7 million valuation allowance.

For the years ended December 31, 2010, 2009 and 2008, income tax expense was $55.6 million, $32.1 million and $43.4 million and the Company's effective tax rate was 10.1%, 27.5% and 38.7% for the years ended December 31, 2010, 2009 and 2008, respectively. The Company's effective tax rates reflect the proportion of income recognized by each of the Company's operating subsidiaries, with U.S.

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subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, United Kingdom ("U.K.") subsidiaries taxed at the U.K. marginal corporate tax rate of 28%, and no taxes for the Company's Bermuda holding company and subsidiaries, and the impact of the goodwill impairment and gain on bargain purchase which is not tax effected. Accordingly, the Company's overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions. During the year ended December 31, 2010, a net tax benefit of $55.8 million was recorded by the Company due to the filing of an amended tax return which included the AGMH and Subsidiaries tax group. The amended return filed in September 2010 was for a period prior to the AGMH Acquisition and consequently, the Company no longer has a deferred tax asset related to net operating loss or alternative minimum tax credits associated with the AGMH Acquisition. Instead, the Company has recorded additional deferred tax assets for loss reserves and foreign tax credits and has decreased its liability for uncertain tax positions. The event giving rise to this recognition occurred after the measurement period as defined by acquisition accounting and thus the amount is included in the year ended December 31, 2010 net income. Included in the $55.8 million net tax benefit is a decrease for uncertain tax positions, including interest and penalties, of $9.2 million. In 2009 pre-tax income included the bargain purchase gain on AGMH Acquisition of $232.6 million and expense of $85.4 million related to goodwill impairment, which was the primary reason for the 27.5% effective tax rate. In 2008 pre-tax income included $38.0 million of pre-tax unrealized gains on credit derivatives, the majority of which was associated with subsidiaries taxed in the U.S.

Financial Guaranty Variable Interest Entities

On January 1, 2010, the Company adopted a new accounting standard as required by the Financial Accounting Standards Board that changed how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The new accounting standard requires the Company to perform an analysis to determine whether its variable interests give it a controlling financial interest in a VIE. The new accounting standard mandated the accounting changes prescribed by the statement to be recognized by the Company as a cumulative effect adjustment to retained earnings as of January 1, 2010. The cumulative effect of adopting the new accounting standard was a $206.5 million after-tax decrease to the opening retained earnings balance due to the consolidation of 21 VIEs at fair value on January 1, 2010. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Under GAAP, the Company is deemed to be the control party typically when its protective rights give it the power to both terminate and replace the deal servicer. Additionally, this new accounting standard requires an ongoing reassessment of whether the Company is the primary beneficiary of a VIE.

Pursuant to the new accounting standard, the Company evaluated its power to direct the significant activities that most significantly impact the economic performance of VIEs that have debt obligations insured by the Company and, accordingly, where the Company is obligated to absorb VIE losses that could potentially be significant to the VIE. As a result of changes in control rights during the year ended December 31, 2010, two VIEs were deconsolidated and ten additional VIEs were consolidated subsequent to the Company's adoption of the new accounting standard on January 1, 2010. This resulted in an increase in financial guaranty variable interest entities' assets of $1,929.9 million, an increase in financial guaranty variable interest entities' liabilities of $2,297.5 million and a net pre-tax loss on deconsolidation/consolidation of $241.9 million, which was included in "net change in financial guaranty variable interest entities" in the consolidated statement of operations. The

following table presents the effects on the Company's statement of operations for consolidating these VIEs and eliminating their related insurance accounting for the year ended December 31, 2010:

Effect of Consolidating VIEs

	Year Ended December 31, 2010 (restated)	
	(in millions)	
Net earned premiums(1)	$	(47.6)
Net change in financial guaranty VIEs		(273.6)
Loss and LAE(2)		65.9
Total pre-tax impact on GAAP net income		(255.3)
Less: Tax provision (benefit)		(89.4)
Total impact on GAAP net income	$	(165.9)

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

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

During 2010, the fair value of VIEs' liabilities decreased principally as a result of lengthening duration of the expected payback period of these liabilities due to improved performance of the underlying VIEs' assets supporting the cash flows for the VIEs' liabilities.

In 2009, the Company consolidated VIEs for which it determined that it was the primary beneficiary, based on accounting rules in effect at the time. In determining whether the Company was the primary beneficiary prior to 2010, a number of factors were considered, including the design of the entity and the risks the VIE was created to pass along to variable interest holders, the extent of credit risk absorbed by the Company through its insurance contract and the extent to which credit protection provided by other variable interest holders reduces this exposure and the exposure that the Company cedes to third party reinsurers. The criteria for determining whether the Company is the primary beneficiary of a VIE has changed as of January 1, 2010, as described above.

Segment Underwriting Gains (Losses)

Management uses underwriting gains and losses as the primary measure of each segment's financial performance. The Company manages its business without regard to accounting requirements to consolidate certain VIEs. As a result, underwriting gain or loss includes results of operations as if consolidated VIEs were accounted for as insurance. All segments are reported net of cessions to third party reinsurers.

The Company's business includes two principal segments: financial guaranty direct and financial guaranty reinsurance. The financial guaranty direct segment includes policies issued directly to the holders of insured obligations at time of issuance and those issued in the secondary market. The financial guaranty reinsurance segment includes assumed reinsurance contracts written to third parties. The Company's mortgage guaranty insurance business, which was previously reported as a separate segment and has had no new activity in recent years, and other lines of business that were 100% ceded upon Assured Guaranty's initial public offering in 2004, are shown as "other." The financial guaranty segments include contracts accounted for as both insurance and credit derivatives.

Prior to the AGMH Acquisition, AG Re assumed business from AGM and it continues to do so. For periods prior to the AGMH Acquisition, the Company reported the business assumed from AGMH in the financial guaranty reinsurance segment, reflecting the separate organizational structures as of those reporting dates. As a result, prior period segment results are consistent with the amounts previously reported by segment. For periods subsequent to the AGMH Acquisition, the Company included all financial guaranty business written by AGMH in the financial guaranty direct segment and the AGMH business assumed by AG Re is eliminated from the financial guaranty reinsurance segment.

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Underwriting Gain (Loss) by Segment

	Year Ended December 31, 2010					
	Financial Guaranty Direct	Financial Guaranty Reinsurance	Other	Underwriting Gain (Loss)	Consolidation of VIEs	Total
	(in millions)					
	(restated)			(restated)	(restated)	(restated)
Net earned premiums	$ 1,161.7	$ 70.2	$ 2.4	$ 1,234.3	$ (47.6)	$ 1,186.7
Credit derivative revenues(1)	210.9	(0.6)		210.3		210.3
Other income	60.5			60.5		60.5
Loss and loss adjustment (expenses) recoveries	(402.2)	(75.7)	(0.2)	(478.1)	65.9	(412.2)
Losses incurred on credit derivatives(2)	(200.5)	(8.9)		(209.4)		(209.4)
Amortization of deferred acquisition costs	(16.6)	(17.4)	(0.1)	(34.1)		(34.1)
Other operating expenses	(171.3)	(29.2)	(1.3)	(201.8)		(201.8)
Underwriting gain (loss)	$ 642.5	$ (61.6)	$ 0.8	$ 581.7		

	Year Ended December 31, 2009			
	Financial Guaranty Direct	Financial Guaranty Reinsurance	Other	Total
	(in millions)			
	(restated)			(restated)
Net earned premiums	$ 793.1	$ 134.4	$ 2.9	$ 930.4
Credit derivative revenues(1)	168.2	2.0		170.2
Other income	31.3	0.1		31.4
Loss and loss adjustment (expenses) recoveries	(257.9)	(123.8)	(12.1)	(393.8)
Losses incurred on credit derivatives(2)	(238.1)	(0.6)		(238.7)
Amortization of deferred acquisition costs	(16.3)	(37.1)	(0.5)	(53.9)
Other operating expenses	(136.4)	(26.4)	(3.0)	(165.8)
Underwriting gain (loss)	$ 343.9	$ (51.4)	$ (12.7)	$ 279.8

	Year Ended December 31, 2008			
	Financial Guaranty Direct	Financial Guaranty Reinsurance	Other	Total
	(in millions)			
Net earned premiums	$ 90.0	$ 165.7	$ 5.7	$ 261.4
Credit derivative revenues(1)	113.8	3.4		117.2
Other income	0.5	0.2		0.7
Loss and loss adjustment (expenses) recoveries	(196.9)	(68.4)	(0.5)	(265.8)
Losses incurred on credit derivatives(2)	(38.3)	(5.4)	0.4	(43.3)
Amortization of deferred acquisition costs	(14.1)	(46.6)	(0.5)	(61.2)
Other operating expenses	(61.6)	(20.7)	(2.6)	(84.9)
Underwriting gain (loss)	$ (106.6)	$ 28.2	$ 2.5	$ (75.9)

(1) Comprised of premiums and ceding commissions.

(2) Represents changes in present value of expected claims to be paid under credit derivative contracts.

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Reconciliation of Underwriting Gain (Loss)
to Income (Loss) before Income Taxes

	Year Ended December 31,		
	2010	2009	2008
	(in millions)		
	(restated)	(restated)	
Total underwriting gain	$ 581.7	$ 279.8	$ (75.9)
Net investment income	354.7	259.2	162.6
Net realized investment gains (losses)	(2.0)	(32.7)	(69.8)
Unrealized gains on credit derivatives, excluding losses incurred on credit derivatives	(2.5)	(105.7)	81.7
Fair value gain (loss) on committed capital securities	9.2	(122.9)	42.7
Net change in financial guaranty VIEs	(273.6)	(1.2)	
Other income(1)	(20.4)	27.1	
AGMH acquisition-related expenses	(6.8)	(92.3)	
Interest expense	(99.6)	(62.8)	(23.3)
Goodwill and settlement of intercompany relationship		(23.3)	
CCS premium expense(2)	(9.7)	(8.3)	(5.7)
Elimination of insurance accounts for VIEs	18.3		
Income (loss) before provision for income taxes	$ 549.3	$ 116.9	$ 112.3

(1) Includes foreign exchange gain (loss) on revaluation of premium receivable and reinsurance cession of OTTI of investment assets associated with a BIG financial guaranty contract.

(2) Recorded in other operating expenses.

For 2010 and 2009, the financial guaranty direct segment recorded underwriting gains primarily due to AGMH net earned premiums, while the reinsurance segment recorded underwriting losses for all periods presented primarily as a result of U.S. RMBS assumed losses and the reclassification of AG Re's assumed business from AGM, from the reinsurance to the direct segment after the Acquisition Date. AGM is one of AG Re's largest ceding companies and AGM results of operations, net of third party cessions, are included in the financial guaranty direct segment in all periods since the Acquisition Date. Prior to the AGMH Acquisition, AGM's cessions to AG Re are included in the reinsurance segment.

Financial Guaranty Direct Segment

2010 compared with 2009: Financial guaranty direct segment underwriting gains increased in 2010 due primarily to increased net earned premiums and credit derivative revenues due to the inclusion of AGMH results for a full year in 2010 compared with a half year in 2009, offset in part by increased loss and LAE on RMBS exposures. The financial guaranty direct segment underwriting gains (losses) in 2010 include gains related to various reassumptions of previously ceded books of business. In the future, the AGMH portfolio of insured structured finance obligations, including credit derivatives, will generate a declining stream of net earned premiums and credit derivative revenues due to AGMH's focus on underwriting public financial obligations.

Present value of PVP in the direct segment declined in 2010. The current market conditions have had a significant impact on the demand in both the global structured finance and international infrastructure finance markets for financial guaranties, and it is uncertain when or if demand for financial guaranties will return. The Company has witnessed limited new issuance activity in many markets in which the Company was previously active. See " Executive Summary."

2009 compared with 2008: The AGMH Acquisition significantly increased the size of the financial guaranty direct segment. Net par outstanding in the financial guaranty direct segment increased from $132.0 billion at December 31, 2008 to $575.5 billion as of December 31, 2009. The financial guaranty direct segment contributed $343.9 million to the total underwriting gain in 2009 compared to an underwriting loss of $106.6 million in 2008.

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The increase in underwriting gain in the financial guaranty direct segment in 2009 was driven primarily by net earned premiums and credit derivative revenues. Growth in net earned premiums resulted primarily from the AGMH Acquisition. On a going forward basis, the AGMH portfolio of insured structured finance obligations, including credit derivatives, will generate a declining stream of net earned premiums and credit derivative revenues due to AGM's focus on underwriting public finance obligations exclusively.

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