Applied Minerals, Inc.
Form 10-Q
August 11, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

Transition report under section 13 or 15(d) of the Exchange Act

For the transition period from to

Commission File Number 000-31380

APPLIED MINERALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	82-0096527
(State or other jurisdiction of incorporation or	(I.R.S. Employer Identification No.)

organization)

110 Greene Street – Suite 1101, New York, NY	10012
(Address of principal executive offices)	(Zip Code)

(800) 356-6463
(Issuer's Telephone Number, Including Area Code)

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

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

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

Large Accelerated Filer Accelerated Filer X Non-accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

The number of shares of the registrant's common stock, $0.001 par value per share, outstanding as of August 1, 2014 was 94,980,078.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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APPLIED MINERALS, INC.

(An Exploration Stage Company)

SECOND QUARTER 2014 REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$3,210,112	$8,685,552
Accounts receivable, net of $0 allowance	19,651	5,756
Deposits and prepaid expenses	334,200	423,472
Total Current Assets	3,563,963	9,114,780
Property and Equipment		
Land and mining property	1,109,938	1,109,938
Property and Equipment, net of depreciation	6,719,905	4,921,611
Total Property and Equipment	7,829,843	6,031,549
Other Assets		
Deposits	68,958	68,958
Total Other Assets	68,958	68,958
TOTAL ASSETS	$11,462,764	$15,215,287
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current Liabilities		
Accounts payable and accrued liabilities	$2,558,417	$1,580,146
Stock awards payable	--	110,000
Current portion of notes payable	165,624	311,165
Total Current Liabilities	2,724,041	2,001,311
Long-Term Liabilities		
Long-term portion of notes payable	25,996	40,826
Warrant derivative	250,000	950,000
PIK notes payable, net of $1,982,609 and $2,020,750 debt discount, respectively	9,042,391	8,486,583
PIK Note derivative	519,750	2,250,000
Total Long-Term Liabilities	9,838,137	11,727,409

Total Liabilities	12,562,178	13,728,720
Commitments and Contingencies (Note 9)	--	--
Stockholders' Equity (Deficiency)		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding	--	--
Common stock, $0.001 par value, 120,000,000 shares authorized, 94,923,310 and 94,646,013 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	94,923	94,646
Additional paid-in capital	64,020,564	63,213,893
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(45,205,405)	(41,812,476)
Total Stockholders' Equity (Deficiency)	(1,099,414)	1,486,567
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	$11,462,764	$15,215,287

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

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APPLIED MINERALS, INC.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
REVENUES	$47,993	$12,878	$59,007	$37,964
OPERATING EXPENSES:				
Production costs	21,567	2,640	25,316	18,407
Exploration costs	1,257,579	875,654	2,454,735	2,243,266
General and administrative	1,343,719	1,830,663	2,597,735	3,976,086
Depreciation expense	137,193	78,890	245,579	157,688
Total Operating Expenses	2,760,058	2,787,847	5,323,365	6,395,447
Operating Loss	(2,712,065)	(2,774,969)	(5,264,358)	(6,357,483)
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(304,196)	(7,137)	(604,363)	(13,624)
Gain (loss) on revaluation of warrant derivative	(25,000)	155,000	700,000	650,000
Gain on revaluation of stock award	72,000	21,000	110,000	35,000
Gain (loss) on revaluation of PIK Note derivative	(39,375)	--	1,753,125	--
Other income (expense)	(27,068)	1,221	(87,333)	2,331
Total Other Income (Expense)	(323,639)	170,084	1,871,429	673,707
Net Loss	$(3,035,704)	$(2,604,885)	$(3,392,929)	$(5,683,776)
Net Loss Per Share (Basic and Diluted)	$(0.03)	$(0.03)	$(0.04)	$(0.06)
Weighted Average Shares Outstanding (Basic and Diluted)	94,860,753	94,417,614	94,777,189	94,051,411

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

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APPLIED MINERALS, INC.

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY (DEFICIENCY)

(Unaudited)

	Common Stock			Accumulated Deficit	Accumulated Deficit	Total
			Additional	Prior to	During	Stockholders'
			Paid-In	Exploration	Exploration	Equity
	Shares	Amount	Capital	Stage	Stage	(Deficiency)
Balance, December 31, 2013	94,646,013	$94,646	$63,213,893	$(20,009,496)	$(41,812,476)	$1,486,567
Shares issued for directors' fees and other services	277,297	277	220,603	--	--	220,880
Stock-based compensation expense	--	--	586,068	--	--	586,068
Net Loss	--	--	--	--	(3,392,929)	(3,392,929)
Balance, June 30, 2014	94,923,310	$94,923	$64,020,564	$(20,009,496)	$(45,205,405)	$(1,099,414)

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30, 2014	2013
Cash Flows From Operating Activities:		
Net loss	$(3,392,929)	$(5,683,776)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	245,579	157,688
Amortization of discount – PIK Notes	53,683	--
Issuance of PIK Notes in payment of interest	525,000	--
Stock issued for director and consulting services	220,880	76,750
Stock-based compensation expense	586,068	2,284,769
Gain on revaluation of warrant derivative	(700,000)	(650,000)
Gain on revaluation of PIK Notes	(1,753,125)	--
(Gain) loss on revaluation of stock awards for non-employees	(110,000)	(35,000)
Change in operating assets and liabilities:		
Accounts receivable	(13,895)	(2,540)
Deposits and prepaids	138,439	125,766
Accounts payable and accrued expenses	(203,996)	(699,444)
Net cash used in operating activities	(4,404,296)	(4,425,787)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(306,266)	(2,223)
Construction-in-progress	(513,278)	(924,022)
Net cash used in investing activities	(819,544)	(926,245)
Cash Flows From Financing Activities:		
Payments on notes payable	(251,600)	(289,633)
Proceeds from sale of common stock	--	5,560,000
Net cash (used in) provided by financing activities	(251,600)	5,270,367
Net change in cash and cash equivalents	(5,475,440)	(81,665)
Cash and cash equivalents at beginning of period	8,685,552	3,356,103
Cash and cash equivalents at end of period	$3,210,112	$3,274,438

	For the six months ended June 30, 2014	2013
Cash Paid For:		
Interest	$6,121	$13,624
Income Taxes	$1,403	$3,814
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Additional large mine permit deposit in accounts payable	$49,167	$--
Property and equipment financed with notes payable	$91,229	$--
Laboratory equipment in accounts payable	$378,485	$--
Prepaid insurance financed with note payable	$--	$25,005
Reclassification from buildings to milling equipment	$319,328	$--
Reclassification of construction-in-progress to buildings	$2,405,648	$--
Reclassification of construction-in-progress to milling equipment	$1,857,727	$--
Reclassification of construction-in-progress to lab equipment	$96,077	$--

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

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all adjustments necessary to present fairly the financial position of Applied Minerals, Inc. ("Applied Minerals" or "the Company" or "we") and its results of operations and cash flows for the interim periods presented. Such financial statements have been condensed in accordance with the applicable regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2013, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire year. The condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America ("GAAP"). These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Applied Minerals, Inc. (the “Company”) is the owner of the Dragon Mine located in the Tintic Mining District of the State of Utah from where it produces halloysite clay and iron oxide. The Company is currently in various phases of commercial scale trials with several organizations in various markets with respect to uses of its products.

Applied Minerals is a publicly traded company incorporated in the state of Delaware. The common stock trades on the OTC Bulletin Board under the symbol AMNL.

NOTE 3 – LIQUIDITY

As the Company continues its commercialization efforts of halloysite clay and iron oxide, it will require additional financing later in 2014 to fund its current operations as it has done in the past. The Company has a history of recurring losses from operations and use of cash in operating activities as it is still an exploration stage company. For the six months ended June 30, 2014, the Company's net loss was $3,392,929 and cash used in operating activities was $4,404,296. As of June 30, 2014, the Company had working capital of $839,922 which will not be sufficient to support its current operations for the next twelve months based on its business plan without obtaining additional financing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Besides continuing its strategic business plan on generating revenue, the Company intends to explore various strategic alternatives, including the sale of equity, debt or the disposal of certain non-core assets to raise additional capital. During 2013, the Company raised gross proceeds of $16,060,000 pursuant to the sale of common stock and issuance of convertible PIK Notes. Management can also take steps to reduce the Company's future operating expenses as needed. However, the Company cannot provide any assurance that it will be able to raise additional capital as needed. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

NOTE 4 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exploration-Stage Company

Effective January 1, 2009, due to the shutdown of our contract mining business, we were, and still are, classified as an exploration company as the existence of proven or probable reserves has not been demonstrated and no significant revenue has been earned from the mine. Under the SEC's Industry Guide 7, a mining company is considered an exploration stage company until it has declared mineral reserves determined in accordance with the guide and staff interpretations thereof. As a result, we are unable to present inventories of mined and processed mineralization and are unable to capitalize any related mine development costs.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Applied Minerals, Inc. and its inactive subsidiary, which holds 100 acres of timber and mineral property in northern Idaho.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. In these condensed consolidated financial statements, the warrant and PIK note derivative liabilities, stock compensation and impairment of long-lived assets involve extensive reliance on management’s estimates. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly-liquid investments with a maturity of three months or less. The Company minimizes its credit risk by investing its cash and cash equivalents, which sometimes exceeds FDIC limits, with major financial institutions located in the United States with a high credit rating.

Receivables

Trade receivables are reported at outstanding principal amounts, net of an allowance for doubtful accounts. Management evaluates the collectability of receivable account balances to determine the allowance, if any. Management considers the other party’s credit risk and financial condition, as well as current and projected economic and market conditions, in determining the amount of the allowance. Receivable balances are written off when management determines that the balance is uncollectable.

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Notes to the Condensed Consolidated Financial Statements

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the assets, or the life of the lease, whichever is shorter, as follows:

	Estimated Useful Life (years)
Building and Building Improvements	20 – 40
Mining equipment	2 – 7
Office and shop furniture and equipment	3 – 7
Vehicles	5

Depreciation expense for the three months ended June 30, 2014 and 2013 totaled $137,193 and $78,890, respectively. Depreciation expense for the six months ended June 30, 2014 and 2013 totaled $245,579 and $157,688, respectively. The Company currently does not capitalize any amounts related to proven or probable reserves and therefore does not have any depletion expense.

Fair Value

ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 - quoted prices in active markets for identical assets and liabilities

Level 2 - observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 - significant unobservable inputs

Liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair value measurement using inputs			**Carrying amount**	
	Level 1	**Level 2**	**Level 3**	**June 30, 2014**	**December 31, 2013**
Financial instruments:					
Warrant derivative		$250,000		$250,000	$950,000
PIK Note derivative		$519,750		$519,750	$2,250,000

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximate their fair value at June 30, 2014 and December 31, 2013 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of notes payable approximate fair value. Estimated fair value of the PIK Notes Payable approximates the outstanding principal amount of $11,025,000 at June 30, 2014. For the Company's warrant and PIK note derivative liabilities, fair value was estimated using a Monte Carlo Model using the following assumptions:

Warrant derivative liability	Fair Value Measurements Using Inputs	
	June 30, 2014	December 31, 2013
Market price and estimated fair value of stock	$0.85	$ 1.10
Exercise price	$1.93	$ 1.93
Term (years)	2.48	3.00
Dividend yield	$--	$ --
Expected volatility *	53.40%	76.90 %
Risk-free interest rate	0.68 %	0.78 %

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Notes to the Condensed Consolidated Financial Statements

PIK Note derivative liability	Fair Value Measurements Using Inputs	
	June 30, 2014	December 31, 2013
Market price and estimated fair value of stock	$0.85	$ 1.10
Exercise price	$1.40	$ 1.40
Term (years)	9.08	9.58
Dividend yield	$--	--
Expected volatility *	53.40%	76.90 %
Risk-free interest rate	2.40 %	2.96 %

* During the first quarter of 2014, the Company revised its assumption for expected volatility by switching from a peer-group average volatility to the Company's three-year historical volatility in measuring the value of the derivative liabilities mentioned above. Prior to 2011, the occurrence of certain corporate events would not have made the historical volatility calculations meaningful or accurate if included. This reduction in volatility led to a reduced valuation for both the Warrant and PIK Note derivative liabilities of approximately $118,500 and $126,000, respectively. The remaining decrease in the valuation is attributable to the decline in stock price.

Impairment of Long-lived Assets

The Company periodically reviews the carrying amounts of long-lived assets to determine whether current events or circumstances warrant adjustment to such carrying amounts. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset to its carrying amount.

If this comparison indicates an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. Considerable management judgment is necessary to estimate the fair value of assets. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value, less cost to sell.

Revenue Recognition

Revenue includes sales of halloysite clay and, commencing in June 2013, iron oxide, and is recognized when title passes to the buyer and when collectability is reasonably assured. Title passes to the buyer based on terms of the sales contract. Product pricing is determined based on related contractual arrangements with the Company’s customers.

Mining Exploration and Development Costs

Land and mining property are carried at cost. The Company expenses prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs will be capitalized and will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized.

Income taxes

The Company uses an asset and liability approach which results in the recognition of deferred tax liabilities and assets for the expected future tax consequences or benefits of temporary differences between the financial reporting basis and the tax basis of assets and liabilities, as well as operating loss and tax credit carry forwards, using enacted tax rates in effect in the years in which the differences are expected to reverse. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A valuation allowance has been provided for the portion of the Company’s net deferred tax assets for which it is more likely than not that they will not be realized.

The Company is subject to U.S. federal income tax as well as income tax of certain state jurisdictions. Federal income tax returns subsequent to 2009 are subject to examination by major tax jurisdictions. The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company follows the provision of ASC Topic 740-10, “Income Taxes”, relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. This guidance provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. As of June 30, 2014, no amounts are included in the financial statements for unrecognized tax benefits.

Stock Options and Warrants

The Company follows ASC 718 (Stock Compensation) and 505-50 (Equity-Based Payments to Non-employees), which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period.

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Notes to the Condensed Consolidated Financial Statements

We determine the fair value of the stock-based compensation awards granted to non-employees as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. The Company utilized the contractual term as the expected term.

Per share data

Loss per share for the three months ended June 30, 2014 and 2013, respectively, is calculated based on 94,860,753 and 94,417,614 weighted average outstanding shares of common stock. Loss per share for the six months ended June 30, 2014 and 2013, respectively, is calculated based on 94,777,189 and 94,051,411 weighted average outstanding shares of common stock.

At June 30, 2014 and 2013, respectively, the Company has outstanding options and warrants to purchase 23,258,046 and 15,578,115 shares of Company common stock, which were not included in the diluted computation as their effect would be anti-dilutive.

Environmental Matters

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures resulting from the remediation of existing conditions caused by past operations that do not contribute to future revenue generations are expensed. Liabilities are recognized when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated.

Estimates of such liabilities are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors, and include estimates of associated legal costs. These amounts also reflect prior experience in remediating contaminated sites, other companies' clean-up experience and data released by The Environmental Protection Agency or other organizations. Such estimates are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation. Recoveries are evaluated separately from the liability and, when recovery is assured, the Company records and reports an asset separately from the associated liability.

Based upon management’s current assessment of its environmental responsibilities, the Company cannot reasonably estimate any reclamation or remediation liability that may occur in the future, if any.

Recent Accounting Pronouncements

In June 2014, the FASB issued Accounting Standards Update (“ASU”) ASU 2014-10 Development Stage Entities. The amendments in ASU 2014-10 remove the definition of a development stage entity from Topic 915 Development Stage Entities, thereby removing the distinction between development stage entities and other reporting entities from US GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and shareholder’s equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations. ASU 2014-10 is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company could early adopt ASU 2014-10 for any annual reporting period or interim period for which the entity’s financial statements have not yet been issued. The Company has elected to adopt this ASU effective with this Quarterly Report on Form 10-Q and its adoption resulted in the removal of inception-to-date information in the Company’s statements of operations and cash flows.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*. The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605 *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606 *Revenue from Contracts with Customers*.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating these new requirements to determine the method of implementation and any resulting estimated effects on the financial statements.

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Notes to the Condensed Consolidated Financial Statements

NOTE 5 - STOCK AWARD PAYABLE

The stock award payable amount of $110,000 at December 31, 2013 relates to 100,000 shares issuable, but not issued, under a 2007 employment agreement. The Company recorded the stock grant as a liability and revalued based on the quoted price of the Company's stock at the end of each period. During the second quarter of 2014, the Company received a release in writing from the former employee absolving the Company of the Stock Award Payable and accordingly reversed the $72,000 balance of the liability into Other Income.

NOTE 6 - INCOME TAX

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of the continuation of losses for the foreseeable future, the Company has determined that it is not more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of June 30, 2014 and December 31, 2013.

NOTE 7 - NOTES PAYABLE

Notes payable at June 30, 2014 and December 31, 2013 consist of the following:

	June 30, 2014 (unaudited)	December 31, 2013
Note payable for mining equipment, payable $5,556 monthly, including interest (a)	$ 10,292	$42,927
Note payable for mining equipment, payable $950 monthly, including interest (b)	18,809	23,302
Note payable for mining equipment, payable $6,060 monthly, including interest (c)	41,655	76,313
Note payable for mine site vehicle, payable $628 monthly, including interest (d)	24,506	28,276

Note payable for mining equipment, payable $5,000 monthly, including interest (e)	--	9,932
Note payable for mining equipment, payable $2,250 monthly, including interest (f)	--	8,898
Note payable to an insurance company, payable $19,139 monthly, including interest (g)	19,089	132,576
Note payable to an insurance company, payable $4,297 monthly, including interest (h)	4,286	29,767
Note payable for lab equipment, payable $9,123 monthly (i)	72,983	--
	191,620	351,991
Less: Current Portion	(165,624)	(311,165)
Notes Payable, Long-Term Portion	$25,996	$40,826

(a) On July 7, 2011, the Company purchased mining equipment for $198,838 by issuing a note with an implicit interest rate of 9.34%. The note is collateralized by the mining equipment with payments of $5,556 for 36 months, which started on August 15, 2011

(b) On April 17, 2012, the Company purchased mining equipment for $40,565 by issuing a note with an effective interest rate of 11.279%. The note is collateralized by the mining equipment with payments of $950 for 48 months, which started on May 1, 2012.

(c) On July 23, 2012, the Company purchased mining equipment for $169,500 by issuing a note with an interest rate of 5.5%. The note is collateralized by the mining equipment with payments of $6,060 for 30 months, which started on August 25, 2012.

(d) On September 20, 2012, the Company purchased a vehicle for the mine site for $37,701 by issuing a note with an interest rate of 0%. The note is collateralized by the vehicle with payments of $628 for 60 months, which started on October 20, 2012.

(e) On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for $67,960 by issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment with payments of $3,518 for three months, then $5,000 for twelve months.

(f) On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for $33,748 by issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment with payments of $1,632 for five months, then $2,250 for twelve months.

(g) The Company signed a note payable with an insurance company dated October 17, 2012 for directors' and officers' insurance, due in monthly installments, including interest at 3.15%. The note will mature in June 2013.

(h) The Company signed a note payable with an insurance company dated October 17, 2012 for liability insurance, due in monthly installments, including interest at 4.732%. The note will mature in July 2013.

(i) On April 16, 2014, the Company purchased laboratory equipment for $109,493 by depositing $18,424 and issuing a non-interest bearing note. The note is collateralized by the lab equipment with payments of $9,122 for ten months.

The following is a schedule of the principal maturities for the next five years and the total thereafter on these notes as of June 30, 2014:

July 2014 – June 2015	165,624
July 2015 – June 2016	16,571
July 2016 – June 2017	7,540
July 2017 – June 2018	1,885
Thereafter	--
Total Notes Payable	$191,620

During the three and six months ending June 30, 2014, the Company's interest payments totaled $2,376 and $6,121, respectively.

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

NOTE 8 – CONVERTIBLE DEBT (PIK NOTES)

In August 2013, the Company received $10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Notes with additional PIK Notes containing the same terms as the Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February 2014, the Company issued $525,000 in additional PIK Notes to the holders to pay the semi-annual interest.

The Notes convert into the Company's common stock at a conversion price of $1.40 per share, which is subject to customary antidilution adjustments. As of issuance, the Notes are convertible into 7,500,000 shares of the common stock. The holders may convert the Notes at any time. The Notes are mandatorily convertible after one year when the weighted average trading price of a share of the common stock for the preceding ten trading days is in excess of the conversion price. The Notes contain customary representations and warranties and several covenants. The proceeds are being used for general corporate purposes. No broker was used and no commission was paid in connection with the sale of the Notes.

These Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary antidilution provisions the notes contain a down-round provision whereby the conversion price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued for cash consideration (e.g. a capital raise) at a price less than the conversion price. Therefore, the estimated fair value of the conversion feature of $2,055,000 (based on observable inputs) was bifurcated from the Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Notes. The debt discount is being amortized using the effective interest method over the 10-year term of the Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

At June 30, 2014, the fair value of the PIK Note Derivative was estimated to be $519,750, which includes the value of the additional PIK Notes issued in February 2014, as mentioned above. Total gain from the revaluation of the original PIK Notes was $1,753,125 for the six months ending June 30, 2014. In addition, during such period, the Company amortized $53,683 of debt discount relating to the PIK Notes Payable, increasing the PIK Notes Payable carrying value to $9,042,391 as of June 30, 2014.

NOTE 9 - STOCKHOLDERS' EQUITY

During the six months ended June 30, 2014, the Company issued a total of 277,297 shares of common stock valued at $220,880 to directors and consultants as payments of fees.

NOTE 10 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

Derivative Instruments - Warrants

The Company issued 5,000,000 warrants (“Samlyn warrants”) in connection with the December 22, 2011 private placement of 10,000,000 shares of common stock. The strike price of these warrants was $2.00 per share at the date of grant. These warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary antidilution provisions the notes contain a down-round provision whereby the exercise price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued at a price less than the exercise price. Therefore, the fair value of these warrants (based on observable inputs) was recorded as a liability in the balance sheet until they are exercised or expire or are otherwise extinguished. During the first quarter of 2013, the Company issued 3,756,757 shares of its common stock for gross proceeds of $5,560,000, which triggered a down-round adjustment of $0.03 from $2.00 to $1.97 in the strike price of the Samlyn warrants at that time. As discussed in Note 8, during August 2013, the Company issued $10,500,000 of 10% mandatorily convertible PIK Notes due 2023 ("Notes") in a private placement, which triggered a down-round adjustment of $0.04 from $1.97 to $1.93 in the strike price of the Samlyn warrants.

During the three months ended June 30, 2014 and 2013, the Company recognized $25,000 of loss and $155,000 of income, respectively, of Other Income (Expense) resulting from the changes in the fair value of the warrant liability. During the six months ended June 30, 2014 and 2013, the Company recognized $700,000 and $650,000 of income resulting from the decrease in the fair value of the warrant liability. As described in Note 4, this reduction mainly resulted from a lower stock price and a change in the volatility utilized by the Company.

Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at June 30, 2014 is presented below:

Exercise Price		Warrants Outstanding and Exercisable Number Outstanding	Weighted Average Remaining Contractual Life (years)
$ 0.75		139,340	1.25
$ 0.78		213,402	1.59
$ 0.80		124,481	1.50
$ 1.00		212,000	1.16
$ 1.15		461,340	6.83
$ 1.93		5,000,000	2.48
$ 2.00		54,367	2.09
$ 1.75	(a)	6,204,930	2.68

(a) Weighted average

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APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

No warrants have been issued since 2011 and no warrants vested in 2013 or 2014; accordingly, no compensation expense has been recorded during 2013 and 2014. The intrinsic value of the outstanding warrants at June 30, 2014 was $35,096.

Excluding the 5,000,000 warrants with the down round provisions discussed above, the fair value of each of the Company’s stock warrant awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below.

Outstanding Stock Options

On November 20, 2012, the shareholders of the Company approved the adoption of the Applied Minerals, Inc. 2012 Long-Term Incentive Plan (“LTIP”) and the Short-Term Incentive Plan (“STIP”) and the performance criteria used in setting performance goals for awards intended to be performance-based. Under the LTIP, 8,900,000 shares are authorized for issuance. The STIP does not refer to a particular number of shares under the LTIP, but would use the shares authorized in the LTIP for issuance under the STIP. The CEO, the CFO, and named executive officers, and directors, among others are eligible to participate in the LTIP and STIP. Prior to the adoption of the LTIP and STIP, stock options were granted under individual arrangements between the Company and the grantees, and approved by the Board of Directors.

The fair value of each of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatility is based on an average of historical volatility of the Company's common stock. The risk-free interest rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury Bond on the date the award is granted with a maturity equal to the expected term of the award.

The significant assumptions relating to the valuation of the Company's options issued for the six months ended June 30, 2014 and 2013 were as follows:

	2014	2013
Dividend Yield	0 %	0 %
Expected Life (years)	5-6	5 - 10
Expected Volatility	55.70 %	66-83 %
Risk Free Interest Rate	1.71-1.90 %	0.88-2.57 %

A summary of the status and changes of the options granted under stock option plans and other agreements for the six months ended June 30, 2014 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	15,878,116	$ 1.03
Issued	1,175,000	0.84
Exercised	--	--
Forfeited	--	--
Outstanding at end of period	17,053,116	$ 1.02

During the six months ended June 30, 2014, the Company granted 1,175,000 options to purchase the Company's common stock with a weighted average exercise price of $0.84. Of the 1,175,000 options granted during 2014, 200,000 options vest quarterly starting on March 31, 2014 and ending on December 31, 2014; 375,000 options granted during the second quarter immediately vested on June 9, 2014; and 600,000 options granted on June 9, 2014 vest monthly over a three-year period.

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A summary of the status of the options outstanding at June 30, 2014 is presented below:

Options Outstanding			Options Exercisable	
Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
7,358,277	4.44	$ 0.70	7,358,277	$ 0.70
3,405,134	7.19	$ 0.83	3,305,134	$ 0.83
975,000	9.95	$ 0.84	391,667	$ 0.84
60,000	2.00	$ 1.00	60,000	$ 1.00
300,000	9.15	$ 1.10	--	--
300,000	8.99	$ 1.15	83,333	$ 1.15
100,000	3.59	$ 1.24	100,000	$ 1.24
115,000	6.74	$ 1.35	115,000	$ 1.35
125,000	3.59	$ 1.45	125,000	$ 1.45
330,000	7.45	$ 1.55	246,667	$ 1.55
7,645	3.59	$ 1.58	7,645	$ 1.58
3,077,060	8.40	$ 1.66	3,077,060	$ 1.66
900,000	7.14	$ 1.90	850,000	$ 1.90
17,053,116	6.38	$ 1.02	15,719,783	$ 1.02

At June 30, 2014, the total compensation expense of $754,293 for unvested options is to be recognized over the next 1.95 years on a weighted average basis.

Compensation expense of $371,218 and $586,068 have been recognized for vesting of options for the three and six months ended June 30, 2014, respectively. The aggregate intrinsic value of the outstanding options as June 30, 2014 was $1,181,594.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Commitments

The following table summarizes our contractual obligations as of June 30, 2014 that require us to make future cash payments:

	Payment due by period			
	Total	< 1 year	1 - 3 years	3 - 5 years
Contractual Obligations:				
Rent obligations	$68,958	$68,958	--	
Total	$68,958	$68,958	--	

Dexia Holdings and FSAH have entered into and are entering into a number of agreements pursuant t guarantee the assets and liabilities of the GIC subsidiaries for the benefit of FSA (and, if FSAH continues t for losses arising after the closing of the acquisition from the assets, liabilities, operations and business of I post from time to time eligible collateral (other than any assets of FSAM owned as of the closing date) hav equal to the excess of (i) the aggregate principal amount of all outstanding GICs over (ii) the aggregate ma circumstances, including issuance of the sovereign guarantees, Dexia will be relieved, in whole or in part, Agreement and Ancillary Agreements Financial Product Agreements." As of September 30, 2008, the liab assets by approximately $4.3 billion (before any tax effects). To the extent FSA is required to pay any amo subsidiaries, FSA will be subject to the risk that it will not receive the guarantee payment from Dexia Hold under its financial guarantee policy or that it will not receive the guarantee payment at all.

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Dexia Holdings and/or it affiliates have also entered into agreements to:

- provide a $5 billion revolving line of credit to FSAM;
- provide capital contributions to FSAH, not to exceed $500 million in the aggregate, eq which other than temporary impairments have been determined in accordance with FS immediately prior to the contribution date, less certain realized tax benefits, if any, aris
- lend FSAM up to $3.5 billion of securities eligible to act as collateral for GICs.

All of these agreements are described under "The Stock Purchase Agreement and Ancillary Agreemen

Dexia Holdings has agreed to (or cause an affiliate to) provide a liquidity facility for the purpose of co respect of "strip coverages" included in FSAH's leveraged tax lease debt defeasance business. The initial c subject to adjustment to $1 billion under specified conditions. See "The Stock Purchase Agreement and An Coverage Liquidity Facility."

Restrictions on the conduct of FSA's business after the closing will limit Assured's operating and financ

Under the stock purchase agreement, Assured has agreed to conduct its business, including the busine described under "The Stock Purchase Agreement and Ancillary Agreements Post-Closing Conduct of Bus years after the closing of the acquisition. Among other things, Assured has agreed that unless FSA is rated bond and infrastructure bond insurance, whether written directly, assumed, reinsured or occurring through will not repurchase, redeem or pay any dividends in relation to any class of equity interests unless (i) (A) a and Aa3 by Moody's (if such rating agencies still rate financial guaranty insurers generally) and (B) the ag $25 million or (ii) FSA receives prior rating agency confirmation that such action would not cause any rati following such action. These agreements will limit Assured's operating and financial flexibility.

Although we expect that the acquisition of FSAH will result in benefits to Assured, we may not realize th

Integrating the operations of Assured and FSAH successfully or otherwise realizing any of the anticip anticipated cost savings and additional revenue opportunities, involve a number of potential challenges. Th harm our results of operations and the market price of the Assured common shares may decline as a result.

Realizing the benefits of the acquisition will depend in part on the integration of information technolo complex and time-consuming and we may encounter unexpected difficulties or incur unexpected costs, inc

- diversion of management attention from ongoing business concerns to integration matt difficulties in consolidating and rationalizing information technology platforms and ad

difficulties in combining corporate cultures, maintaining employee morale and retainin

We may not successfully integrate the operations of Assured and FSAH in a timely manner and we m expenses and other benefits and synergies of the acquisition of FSAH to the extent, or in the time frame, a our ability to realize these net reductions in costs and expenses and other benefits and synergies could be a ability to combine operations.

The acquisition of FSAH is subject to the receipt of consents and approvals from government entities th could have an adverse effect on Assured following the completion of the acquisition.

We cannot complete the acquisition unless we receive various consents, orders, approvals and clearan and elsewhere. While we believe that we will receive the requisite regulatory approvals from these authori authorities may impose conditions on the completion of the acquisition of FSAH or require changes to the require divestiture of certain assets as a condition to the closing of the acquisition. We are not obligated to the proposed acquisition if such divestiture would have a material adverse effect on Assured and its subsid financial products subsidiaries)) taken as a whole after the acquisition. While we do not currently expect th cannot assure you that they will not be, and such conditions or changes could have the effect of delaying c or limiting the revenues of Assured following the acquisition, any of which may have an adverse effect on Approvals Required for the Transaction" and "The Stock Purchase Agreement Closing Conditions" for a

Subject to certain limitations, Dexia Holdings may sell Assured common shares at any time following th cause our stock price to decrease.

Dexia Holdings has agreed not to transfer any of the Assured common shares received in connection anniversary of the stock purchase agreement. Assured has agreed to register all of such Assured common s number of Assured common shares by Dexia Holdings or our other stockholders within a short period of ti more difficult for us to raise funds through future offerings of Assured common shares or acquire other bu

You will experience a reduction in percentage ownership and voting power with respect to Assured com

In connection with the transaction, we will issue to Dexia Holdings up to 44,567,901 Assured commo price under the stock purchase agreement, we expect to issue additional Assured common shares having a 48.9 million Assured common shares based upon the closing price of the Assured common shares on the N completion of the acquisition, holders of Assured common shares will experience a substantial reduction i voting power relative to their respective percentage ownership interests in Assured common shares and effective voting power prior to the acquisiti

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We and our subsidiaries currently occupy approximately over 142,000 square feet of leased office spa
that amount are 45,000 square feet for New York office space for the lease that will expire in March 2009.
Corp., entered into a new five-year lease agreement for New York office space. Management believes that
needs.

ITEM 3. LEGAL PROCEEDINGS

Litigation

Lawsuits arise in the ordinary course of the Company's business. It is the opinion of the Company's m
expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect
liquidity, although an adverse resolution of a number of these items could have a material adverse effect o
particular quarter or fiscal year.

Effective January 1, 2004, Assured Guaranty Mortgage Insurance Company ("AGMIC") reinsured a p
Insurance Stop Loss Excess of Loss Reinsurance Agreement (the "Agreement"). Under the Agreement, AG
guaranty insurance losses in excess of a $25 million retention and subject to a $95 million limit. Coverage
Reinsured's: (1) combined loss ratio exceeded 100%; and (2) risk to capital ratio exceeded 25 to 1, accordi
notified the Reinsured it was terminating the Agreement because of the Reinsured's breach of the terms of
considers the Agreement to remain in effect and that the two coverage triggers under the Agreement apply
Reinsured demanded arbitration against AGMIC seeking a declaration that the Agreement remains in effec
arbitration hearing took place before a three person panel in December 2008 and January 2009. Post hearin
February 26, 2009, and the arbitration panel could render its decision at any time thereafter.

It is the opinion of the Company's management, based upon the information available, that the expect
in the aggregate, will not have a material adverse effect on the Company's financial position or liquidity, al
Company could have a material adverse effect on the Company's results of operations in a particular quart

During 2007, the Company's wholly owned subsidiary, Assured Guaranty Re Overseas Ltd. ("AGRO
settlements with defendants in the *In re: National Century Financial Enterprises Inc. Investment Litigatio*
Southern District of Ohio Eastern District. AGRO received approximately $0.4 million (pre-tax) in 2008,
2006 from the settlements. AGRO originally paid claims in 2003 of approximately $41.7 million (pre-tax)
date, including the settlements described above, the

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Company has recovered $20.5 million (pre-tax). These are a partial settlement of the litigation, and the litig

In the ordinary course of their respective businesses, certain of the Company's subsidiaries assert clai paid in prior periods. The amounts, if any, the Company will recover in these proceedings are uncertain, al during any quarter or fiscal year could be material to the Company's results of operations in that particular

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

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year covere

On February 6, 2009, a Proxy statement was distributed to Company's stockholders asking for their vo common shares to Dexia Holdings or its designated affiliate in connection with Assured's acquisition of FS shares to the WLR Funds pursuant to the WLR Backstop Commitment. The votes for this Proxy statement on March 16, 2009. .See Item 1. Business, "Acquisition of Financial Security Assurance Holdings Ltd." fo

Executive Officers of the Company

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

Name	Age	Posit
Dominic J. Frederico	56	President and Chief Execu Chairman
Michael J. Schozer	51	President of Assured Guar
Robert B. Mills	59	Chief Financial Officer
James M. Michener	56	General Counsel and Secr
Robert A. Bailenson	42	Chief Accounting Officer

Dominic J. Frederico has been President and Chief Executive Officer of Assured Guaranty since Dec from June 2003 until April 2004 and served as President and Chief Operating Officer of ACE and Chairma 1999 to June 2003. Mr. Frederico was a director of ACE since 2001, but retired from that board when his t as Chairman, President and Chief Executive Officer of ACE INA from May 1999 through November 1999 Bermuda Insurance Ltd. ("ACE Bermuda") from July 1997 to May 1999, Executive Vice President, Under Vice President, Financial Lines from January 1995 to December 1996. Prior to joining ACE, Mr. Frederico International Group ("AIG"). Mr. Frederico completed his employment at AIG after serving as Senior Vice Management. Before that, Mr. Frederico was Executive Vice President and Chief Financial Officer of UNA Paris, France.

Michael J. Schozer has been President of Assured Guaranty Corp. since December 2003. Mr. Schoze Derivatives of Ambac Assurance Corporation from 1996 to December 2003 where he was also a member o

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Robert B. Mills has been Chief Financial Officer of Assured Guaranty since January 2004. Mr. Mills of UBS AG and UBS Investment Bank from April 1994 to January 2004 where he was also a member of t was with KPMG from 1971 to 1994 where his responsibilities included being partner-in-charge of the Inve

James M. Michener has been General Counsel and Secretary of Assured Guaranty since February 20 Travelers Property Casualty Corp. from January 2002 to February 2004. From April 2001 to January 2002 Emerging Markets business. Prior to joining Citigroup's Emerging Markets business, Mr. Michener was G April 2001 and General Counsel of Travelers Property Casualty Corp. from May 1996 to April 2000.

Robert A. Bailenson has been Chief Accounting Officer of Assured Guaranty since May 2005 and ha since 1990. In addition to this position, Mr. Bailenson serves as the Chief Accounting Officer of the Comp held since 2003. He was Chief Financial Officer and Treasurer of Assured Guaranty Re Ltd. from 1999 un Capital Re Corp., which was acquired by ACE Limited in 1999.

Information pertaining to this item is incorporated by reference to the sections entitled "Proposal No. Officers and Directors Comply with Section 16(a) Beneficial Ownership Reporting in 2008?", "Corporate Governance The Committees of the Board The Audit Committee" of the definitive proxy statement for th election of directors and will be filed with the SEC not later than 120 days after the close of the fiscal year

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER SECURITIES

Our Common Stock is listed on the New York Stock Exchange under symbol "AGO." The table belo high and low sales prices and amount of any cash dividends declared:

	2008		
	Sales Price		Cash
	High	Low	Dividends
First Quarter	$26.98	$16.53	$ 0.045
Second Quarter	27.58	17.94	0.045
Third Quarter	20.64	7.95	0.045
Fourth Quarter	16.65	5.49	0.045

On February 12, 2009, the closing price for our common stock on NYSE was $7.38, and the approxin on that date was 14,743.

The Company is a holding company whose principal source of income is net investment income and operating subsidiaries to pay dividends to us and our ability to pay dividends to our shareholders, are each and payment of future dividends will be at the discretion of the Board of Directors and will be dependent u Guaranty Ltd. and other factors, including legal restrictions on the payment of dividends and such other fa information concerning our dividends, please refer to

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Item 7 under caption "Liquidity and Capital Resources" and Note 14 "Insurance Regulations" to the consol

On May 4, 2006, the Company's Board of Directors approved a share repurchase program for 1.0 mill management's discretion depending on market conditions. In August 2007 the Company completed this sh repurchased 1.0 million common shares at an average price of $24.81.

On November 8, 2007, the Company's Board of Directors approved a new share repurchase program take place at management's discretion depending on market conditions. During 2007 we repurchased 0.3 m repurchases were made during 2008.

The following table reflects the Company share repurchase activity during the three months ended De payment of employee withholding taxes due in connection with the vesting of restricted stock awards:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total N Shares Pu Part of Announce
October 1 October 31	482	$ 14.61	
November 1 November 30	626	$ 10.58	
December 1 December 31	189	$ 12.91	
Total	1,297	$ 12.42	

Set forth below are a line graph and a table comparing the dollar change in the cumulative total sharel April 22, 2004 through December 31, 2008 as compared to the cumulative total return of the Standard & P Standard & Poor's 500 Financials Index. The chart and table depict the value on April 22, 2004, December December 31,

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2007 and December 31, 2008 of a $100 investment made on April 22, 2004, with all dividends reinvested.

	Assured Guaranty		S&P 500 I	
04/22/04	$	100.00	$	10
12/31/04	$	109.67	$	10
12/31/05	$	142.36	$	11
12/31/06	$	149.98	$	13
12/31/07	$	150.57	$	13
12/31/08	$	65.56	$	8

Source: Bloomberg

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read together with the other information contained in
Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and r

Reclassification

Effective with the quarter ended March 31, 2008, the Company reclassified the revenues, expenses an
contracts that our financial guaranty subsidiaries write in the form of credit default swap ("CDS") contracts
or shareholder's equity. This reclassification is being adopted by the Company after agreement with memb
Insurers in consultation with the staffs of the Office of the Chief Accountant and the Division of Corporate
reclassification is being implemented in order to increase comparability of our financial statements with ot

In general, the Company structures credit derivative transactions such that the method for making loss
and generally occurs as losses are realized on the underlying reference obligation. Nonetheless, credit deri
Derivatives Association, Inc. documentation and operates differently from financial guaranty insurance po
accounting rules and financial guaranty policies are subject to insurance accounting rules.

In the Company's accompanying consolidated statements of operations and comprehensive income, th
premiums" to "realized gains and other settlements on credit derivatives." Loss and loss adjustment expens
loss adjustment expenses (recoveries)" have been reclassified to "realized gains and other settlements on cr
adjustment expenses have been reclassified from "loss and loss adjustment expenses (recoveries)" and are
which previously included only unrealized mark to market gains or losses on the Company's contracts writ
Company reclassified all CDS-related balances previously included in "unearned premium reserves," "rese
reinsurance premiums," "premiums receivable" and "reinsurance balances payable" to either "credit deriva
net position of the CDS contract at each balance sheet date.

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These reclassifications had no impact on net income (loss), comprehensive income (loss), earnings (lo

	Year E	
	2008	2007
	($ in millions,	
Statement of operations data:*		
Gross written premiums	$618.3	$ 424.5
Net written premiums	604.6	408.0
Net earned premiums	261.4	159.3
Net investment income	162.6	128.1
Net realized investment (losses) gains	(69.8)	(1.3)
Realized gains and other settlements on credit derivatives	117.6	74.0
Unrealized gains (losses) on credit derivatives	38.0	(670.4)
Other income(1)	43.4	8.8
Total revenues	553.2	(301.6)
Loss and loss adjustment expenses (recoveries)	265.8	5.8
Profit commission expense	1.3	6.5
Acquisition costs	61.2	43.2
Operating expenses	83.5	79.9
Interest expense	23.3	23.5
Other expense	5.7	2.6
Total expenses	440.9	161.4
Income (loss) before provision (benefit) for income taxes	112.3	(463.0)
Provision (benefit) for income taxes	43.4	(159.8)
Net income (loss)	$ 68.9	$(303.3)
Earnings (loss) per share:		
Basic	$ 0.78	$ (4.46)
Diluted	$ 0.77	$ (4.46)
Dividends per share	$ 0.18	$ 0.16

* Some amounts may not add due to rounding.

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	Year Ended Dec		
	2008	2007	2006
	($ in millions, except pe		
Balance sheet data (end of period):			
Investments and cash	$ 3,643.6	$ 3,147.9	$ 2,469
Prepaid reinsurance premiums	18.9	13.5	4
Total assets	4,555.7	3,762.9	2,931
Unearned premium reserves	1,233.7	887.2	631
Reserves for losses and loss adjustment expenses	196.8	125.6	115
Credit derivative liabilities (assets), net	586.8	617.6	(49
Long-term debt	347.2	347.1	347
Total liabilities	2,629.5	2,096.4	1,280
Accumulated other comprehensive income	2.9	56.6	41
Shareholders' equity	1,926.2	1,666.6	1,650
Book value per share	21.18	20.85	24.
Financial Ratios:			
Loss and loss adjustment expense ratio(2)	81.4%	3.4%	(3
Expense ratio(3)	38.7%	55.8%	59
Combined ratio(4)	120.1%	59.2%	55
Combined statutory financial information:			
Contingency reserve(5)	$ 728.4	$ 598.5	$ 645
Policyholders' surplus(6)	1,578.4	1,489.9	1,010
Additional financial guaranty information (end of period):			
Net in-force business (principal and interest)(7)	$ 348,816	$ 302,413	$ 180,1
Net in-force business (principal only)(7)	222,722	200,279	132,2

(1) Other income for the year ended December 31, 2008 and 2007 included a change in fair value of Corp.'s committed capital securities entered into in April 2005. The change in fair value was $0 i

(2) Loss and loss adjustment expense ratio, which is a non-GAAP financial measure, is defined as lo Company's net estimate of credit derivative incurred case and portfolio loss and loss adjustment (losses) on credit derivatives, plus net credit derivative losses (recoveries), which is included in divided by net earned premiums plus net credit derivative premiums received and receivable, wh credit derivatives.

(3) Expense ratio is calculated by dividing the sum of ceding commissions expense (income), profit expenses by net earned premiums plus net credit derivative premiums received and receivable, w credit derivatives.

(4) Combined ratio, which is a non-GAAP financial measure, is the sum of the loss and loss adjustm

(5) Under U.S. statutory accounting principles, financial guaranty and mortgage guaranty insurers ar specified percentage of premiums. A contingency reserve is an additional liability established to developments or cycles or other unforeseen circumstances.

(6) Combined policyholders' surplus represents the addition of our combined U.S. based statutory su

(7) The Company's 2008, 2007 and 2006 reinsurance par outstanding on facultative business are rep reported on a one-quarter lag.

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

The following discussion and analysis of our financial condition and results of operations should be r and accompanying notes which appear elsewhere in this Form 10-K. It contains forward looking statemen Looking Statements" for more information. Our actual results could differ materially from those anticipate factors, including those discussed below and elsewhere in this Form 10-K, particularly under the headings

Executive Summary

Assured Guaranty Ltd. is a Bermuda based holding company which provides, through its operating su structured finance and mortgage markets. We apply our credit expertise, risk management skills and capita credit derivative products that meet the credit enhancement needs of our customers. We market our produc U.S. and international markets.

Our insurance company subsidiaries have been assigned the following insurance financial strength rat

	Moody's
Assured Guaranty Corp.	Aa2(Excellent)
Assured Guaranty Re Ltd.	Aa3(Excellent)
Assured Guaranty Re Overseas Ltd.	Aa3(Excellent)
Assured Guaranty Mortgage Insurance Company	Aa3(Excellent)
Assured Guaranty (UK) Ltd	Aa2(Excellent)

"Aaa" (Exceptional) is the highest ranking, which Assured Guaranty Corp. ("AGC") and Assured Gua (Excellent) is the third highest ranking of 21 ratings categories used by Moody's Investors Service ("Mood ranking and "AA" (Very Strong) is the third highest ranking of the 21 ratings categories used by Standard highest ranking and "AA" (Very Strong) is the third highest ranking of the 24 ratings categories used by Fi is an opinion with respect to an insurer's ability to pay under its insurance policies and contracts in accorda particular policy or contract. Insurance financial strength ratings do not refer to an insurer's ability to meet purchase or discontinue any policy or contract issued by an insurer or to buy, hold, or sell any security issu

On July 21, 2008, Moody's placed under review for possible downgrade the Aaa insurance financial s wholly owned subsidiary, Assured Guaranty (UK) Ltd., as well as the Aa2 insurance financial strength rati insurance operating companies. Moody's has placed under review for possible downgrade the Aa3 senior u Holdings Inc. and the Aa3 issuer rating of the ultimate holding company, Assured Guaranty Ltd. Moody's residential mortgage-backed securities portfolio did not change meaningfully from their prior estimates.

On November 21, 2008, Moody's downgraded the insurance financial strength ratings of AGC and its Aa2 from Aaa and also downgraded the insurance financial strength ratings of AG Re and its affiliated insu rating action, Moody's downgraded the senior unsecured rating of Assured

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Guaranty US Holdings Inc. and the issuer rating of the ultimate holding company, Assured Guaranty Ltd. t

If the ratings of any of our insurance subsidiaries were reduced below current levels, we expect it wou
position and its prospects for future business opportunities. A downgrade may also reduce the value of the
economic value for our customers to continue to cede to our subsidiaries at economically viable rates.

With respect to a significant portion of our in-force financial guaranty reinsurance business, in the eve
the terms of each reinsurance agreement, the ceding company may have the right to recapture business ced
statutory unearned premium and loss reserves (if any) associated with that business. As of December 31, 2
deferred revenue to the Company, subject to recapture is approximately $188 million. If this entire amount
reduction to net income of approximately $4 million. With respect to one of AG Re's ceding companies, th
were downgraded to the A category by more than one rating agency, or below A2/A by any one rating age
premium subject to recapture by this ceding company is approximately $390 million. If this entire amount
reduction to net income of approximately $43 million. Alternatively, the ceding company can increase the
increase may be retroactive to the date of the cession. As of December 31, 2008, the potential increase in c
net income of approximately $42 million. The effect on net income under these scenarios is exclusive of a

If a credit derivative is terminated, the Company could be required to make a mark-to-market paymen
if AGC's rating were downgraded to A+, under market conditions at December 31, 2008, if the counterpart
AGC would have been required to make payments that the Company estimates to be approximately $261 r
below BBB- it would have been required to make additional payments that the Company estimates to be ap
Company's mark-to-market methodology is, however, not the basis on which any such payment amount w
of such payment is set forth in the credit derivative documentation and generally follows market practice f
materially larger than the Company's estimate.

Under a limited number of credit derivative contracts, the Company is required to post eligible securit
securities. The need to post collateral under these transactions is generally based on mark-to-market valuat
thresholds decline if the Company's ratings decline. As of December 31, 2008 the Company had pre-IPO t
collateral posting due to changes in market value. Of this amount, as of December 31, 2008, the Company
(including $134.2 million for AGC) based on the unrealized mark-to-market loss position for transactions
posted as collateral in the future will depend on changes in the market values of these transactions. Additio
contractual thresholds would be eliminated and the amount of par that could be subject to collateral postin
as of December 31, 2008, such a downgrade would have resulted in AGC posting an additional $88.7 milli
required or anticipated for any other transactions.

The Company's financial strength ratings assigned by S&P and Fitch were affirmed on June 18, 2008
uncertain what, if any, impact Moody's ratings actions will have on the Company's financial strength ratin

On April 8, 2008, investment funds managed by WL Ross & Co. LLC ("WL Ross") purchased 10,65
$23.47 per share, resulting in proceeds to the Company of $250.0 million. The Company contributed $150
Guaranty Re Ltd. In addition, the Company contributed $100.0 million of these proceeds to its subsidiary,
contributed the same amount to its subsidiary, AGC. The commitment to purchase these shares was previo
Ross, Jr., President and Chief Executive Officer of WL Ross, has been appointed to the Board of Directors
2009 annual general meeting of shareholders. Mr. Ross's appointment became effective immediately follo
shareholders, which was held on May 8, 2008. WL Ross has a remaining commitment through April 8, 20
common equity, at the Company's option, subject to the terms and conditions of the investment agreement
with the investment agreement, the Company may exercise this option in one or more drawdowns, subject
purchase price per common share for the subsequent shares is not greater than $27.57, or less than $19.37,
purchase price per common share for such shares will be equal to 97% of the volume weighted average pri
days prior to the applicable drawdown notice. As of December 31, 2008, and as of the date of this filing, th
and therefore the Company may not, at this time, exercise its option for WL Ross to purchase additional sh

On September 16, 2008, the Company agreed to waive the standstill provisions of the investment agr
"WLR Funds") to purchase up to 5,000,000 additional common shares of the Company in open market tra
such purchases are in the sole discretion of WL Ross and they are not obligated to purchase any such share
will be purchased from current shareholders and therefore will not result in an increase in shareholders' eq
additional shares were purchased, the WLR Funds would beneficially own 17,166,396 shares or approxim
based on shares outstanding as of December 31, 2008. As of the date of this filing the Company has not be
of the Company.

On December 21, 2007, the Company completed the sale of 12,483,960 of its common shares at a pri
approximately $303.8 million. The Company has contributed the net proceeds of the offering to its reinsur
provide capital support in the form of a reinsurance portfolio transaction with Ambac Assurance Corp. ("A
as well as to support the growth of AGC, the Company's principal direct financial guaranty subsidiary, by
guaranty reinsurer.

We regularly evaluate potential acquisitions of other companies, lines of business and portfolios of ris
such transactions. As a general rule, we publicly announce such transactions only after a definitive agreem

On November 14, 2008, Assured Guaranty Ltd. announced that it had entered into a definitive agreem
("Dexia") to purchase Financial Security Assurance Holdings Ltd. ("FSAH") and, indirectly, all of its subs
Financial Security Assurance, Inc. The definitive agreement provides that the Company will be indemnifie

which includes its guaranteed investment contract business. Pursuant to the Purchase Agreement, the Com
of common stock of FSAH, representing as of the date thereof approximately 99.8524% of the issued and
shares of FSAH are currently held by current or former directors of FSAH. Assured expects that it will acq
with the closing of the acquisition of shares of FSAH common stock from Dexia or shortly thereafter at th
is expected to occur in either the first or second quarter of 2009.

The purchase price is $722 million (based upon the closing price of the Company's common shares o
$361 million in cash and up to 44,567,901 of the Company's common shares. If, prior to the closing date u
common shares (other than pursuant to an employee benefit plan) or other securities that are convertible in
common shares at a purchase price per share of less than $8.10, the Company has agreed to issue to Dexia
common shares with an aggregate value as of the closing date (measured based on the average of the volu
NYSE trading day period ending three business days prior to the closing date) representing the amount of
defined to mean (x) the number of the Company's common shares issued (or that upon conversion or exch
multiplied by (y) the positive difference if any between $8.10 and the purchase (or reference, implied, con
the Company in the dilutive issuance, multiplied by (z) the percentage of the issued and outstanding share
shares to be received by Dexia under the stock purchase agreement (without taking into account any additi
issuable as a result of the anti-dilution provision).

Under the Purchase Agreement, the Company may elect to pay $8.10 per share in cash in lieu of up to
otherwise deliver as part of the purchase price.

The Company expects to finance the cash portion of the acquisition with the proceeds of a public equ
commitment ("the WLR Backstop Commitment") from the WLR Funds, a related party, to fund the cash p
common shares. The Company entered into the WLR Backstop Commitment on November 13, 2008 with
the Investment Agreement between the Company and the WLR Funds and provided to the Company the op
Guaranty Ltd. or Assured Guaranty US Holdings Inc. a number of the Company's common shares equal to
$361 million specified by the Company divided by (ii) the volume weighted average price of the Company
ending with the last NYSE trading day immediately preceding the date of the closing under the stock purc

The WLR Funds have no obligation to purchase these common shares pursuant to the WLR Backstop
agreement occurs. The Company may use the proceeds from the sale of the Company's common shares pu
portion of the purchase price under the stock purchase agreement. The WLR Funds' obligations under the
credit issued for the benefit of the Company by Bank of America, N.A. and RBS Citizens Bank, N.A., eac

The Company has paid the WLR Funds a nonrefundable commitment fee of $10,830,000 in connecti
Commitment and has agreed to pay the

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WLR Funds' expenses in connection with the transactions contemplated thereby. The Company has agreed obtaining the letters of credit referred to above.

In January 2009, AGC finalized an agreement with CIFG Assurance North America, Inc. ("CIFG") to totaling approximately $13.3 billion of net par outstanding. AGC received $75.6 million, which included $ and approximately $12.2 million of future installments related to this transaction.

The financial guaranty industry, along with many other financial institutions, continues to be threaten collateralized by U.S. residential mortgages. There is significant uncertainty surrounding general economic may adversely affect our loss experience on these securities. The Company continues to monitor these exp received. Additionally, scrutiny from state and federal regulatory agencies could result in changes that limi

Our financial results include four principal business segments: financial guaranty direct, financial gua segment represents lines of business that we exited or sold as part of our 2004 initial public offering ("IPO

We derive our revenues principally from premiums from our insurance and reinsurance businesses, un settlements on credit derivatives, net investment income, and net realized gains and losses from our investm settlement on credit derivatives are a function of the amount and type of contracts we write as well as prev basis when the policy is issued or the contract is executed and/or on an installment basis over the life of the

Investment income is a function of invested assets and the yield that we earn on those assets. The inve of investment as well as the type, credit quality and maturity of our invested assets. In addition, we could r from other than temporary declines in market value as a result of changing market conditions, including ch quality of our invested assets.

Realized gains and other settlements on credit derivatives include credit derivative premiums received under its credit default swaps ("CDS"), any contractual claim losses paid and payable related to insured cre related to their early termination and ceding commissions (expense) income. The Company generally hold circumstances such as for risk management purposes or as a result of a decision to exit a line of business, t prior to maturity.

Unrealized gains (losses) on credit derivatives represent the adjustments for changes in fair value that "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). Changes in unrealized gain consolidated statements of operations and comprehensive income in unrealized gains (losses) on credit der a contract by contract basis, are reflected as either net assets or net liabilities in the Company's balance she fair value of credit derivatives occur because of changes in interest rates, credit spreads, the credit ratings o other market factors. The unrealized gains (losses) on credit derivatives will reduce to zero as the exposure default on the exposure.

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Changes in the fair value of the Company's credit derivatives do not reflect actual claims or credit losses, a resources, rating agency capital or regulatory capital positions.

In 2008 and 2007 the Company also recorded a fair value gain of $42.7 million and $8.3 million, pre- committed capital securities.

Our expenses consist primarily of losses and loss adjustment expenses ("LAE"), profit commission ex expense, put-option premium expense associated with our committed capital securities (the "CCS Securitie amount and types of business we write. Losses and LAE are based upon estimates of the ultimate aggregat low expected frequency of loss and are investment grade at the time we accept the risk. Profit commission generally based on the profitability of the business reinsured by us. Acquisition costs are related to the proc with and are directly attributable to the production of new business are deferred and recognized over the pe expenses consist primarily of salaries and other employee-related costs, including share-based compensatio and other expenses related to maintaining a holding company structure. These costs do not vary with the am outstanding debt and the contractual interest rate related to that debt. Put-option premium expense, which i Statements of Operations and Comprehensive Income, is a function of the outstanding amount of the CCS are a function of our profitability and the applicable tax rate in the various jurisdictions in which we do bus

Critical Accounting Estimates

Our consolidated financial statements include amounts that, either by their nature or due to requireme States of America ("GAAP"), are determined using estimates and assumptions. The actual amounts realize currently provided for in our consolidated financial statements. We believe the items requiring the most inh losses and LAE, fair value of credit derivatives, fair value of committed capital securities, valuation of inve premium revenue recognition, deferred acquisition costs, deferred income taxes and accounting for share-b policies for these items is of critical importance to understanding our consolidated financial statements. Th the estimates and assumptions used for these items and should be read in conjunction with the notes to our

Reserves for Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses for non-derivative transactions in our financial guar mortgage guaranty business include case reserves and portfolio reserves. See the "Fair Value of Credit Der more information on our derivative transactions. Case reserves are established when there is significant cre obligations are in default or default is probable, not necessarily upon non-payment of principal or interest b expected future loss payments and LAE, net of estimated recoveries, but before considering ceded reinsura established by traditional property and casualty insurance companies, which establish case reserves upon n ("IBNR") reserves for the

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difference between actuarially estimated ultimate losses and recorded case reserves. Financial guaranty ins
salvage and subrogation, if any, are discounted at the taxable equivalent yield on our investment portfolio,
the Company becomes entitled to the underlying collateral of an insured credit under salvage and subrogat
and subrogation as an asset, based on the expected level of recovery. Such amounts have been recorded as

We record portfolio reserves in our financial guaranty direct, financial guaranty assumed reinsurance
established with respect to the portion of our business for which case reserves have not been established.

Portfolio reserves are not established based on a specific event, rather they are calculated by aggregat
transaction. Individual transaction reserves are calculated on a quarterly basis by multiplying the par in-for
without regard to discounting. The ultimate loss factor is defined as the frequency of loss multiplied by the
probability of default for each individual issue. The earning factor is inception to date earned premium div
transaction. The probability of default is estimated from rating agency data and is based on the transaction'
severity is defined as the complement of recovery/salvage rates gathered by the rating agencies of defaulti

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

The Company records an incurred loss that is reflected in the statement of operations upon the establi
reserve, we reclassify the corresponding portfolio reserve already recorded for that credit within the balanc
reserve and the reclassified portfolio reserve is recorded as a charge in our statement of operations. Any su
reserves are recorded quarterly as a charge or credit in our statement of operations in the period such estim
loss and LAE reserves, actual experience may differ from the estimates reflected in our consolidated finan

The weighted average default frequencies and severities as of December 31, 2008 and December 31,

	Average Default Frequenc
December 31, 2008	1.
December 31, 2007	0.

The Company incorporates default frequency and severity by asset class into its portfolio loss reserve
information published by rating agencies. The increase in average default frequency shown in 2008 is refle
portfolio, including HELOC exposures. Rating agencies update default frequency and severity information
data.

The chart below demonstrates the portfolio reserve's sensitivity to frequency and severity assumption
estimate of reasonably possible material changes and are based upon our analysis of historical experience.
default and severity assumptions. In all scenarios, the starting point used to test the portfolio reserve's sens

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assumptions was the weighted average frequency and severity by rating and asset class of our insured port
1.08% and the weighted average severity was 23.87% at December 31, 2008. For example, in the first scer
transaction's contribution to the portfolio reserve was recalculated by adding 0.05% (i.e. 5.0% multiplied b

(in thousands of U.S. dollars)	Portfolio Reserve	R In
Portfolio reserve(1) as of December 31, 2008	$ 111,419	$
5% Frequency Increase	116,673	
10% Frequency Increase	123,104	
5% Severity Increase	116,276	
10% Severity Increase	122,310	
5% Frequency and Severity Increase	123,020	

(1) Includes portfolio reserve on credit derivatives of $39.1 million, which balar consolidated balance sheets.

In addition to analyzing the sensitivity of our portfolio reserves to possible changes in frequency and assumptions on our financial guaranty and mortgage guaranty case reserves. At December 31, 2008 case re our original estimate due to changes in assumptions including, but not limited to, severity factors, credit de We discuss below the asset classes and credit for which we have recorded expected case losses and which

Home Equity Line of Credit (HELOC) Transactions

Specifically with respect to reserves related to our U.S. home equity line of credit ("HELOC") and otl significant uncertainty as to the ultimate performance of these transactions. As of December 31, 2008, the HELOC securitizations, of which $1.5 billion are transactions with Countrywide and $1.1 billion were wri ("direct Countrywide transactions" or "Countrywide 2005-J" and "Countrywide 2007-D").

The performance of our HELOC exposures deteriorated during 2007 and 2008 and transactions, parti 2007, continue to perform below our original underwriting expectations. In accordance with our standard p evaluated the most currently available information, including trends in delinquencies and charge-offs on th servicer's ability to fulfill its contractual obligations including its obligation to fund additional draws. In re Payment Rate (CPR), Draw Rates and delinquency percentages have fluctuated within ranges that we belie future performance. Accordingly, the Company is using modeling assumptions that are based upon or whic future performance and potential losses. During 2008, the Company extended the time frame during which revised its assumptions with respect to the overall shape of the default and loss curves. Among other things defaults will occur over the near term. This revision was based upon management's judgment that a variety conditions could lead to a longer period in which default rates remain high. The Company continues to mo CDR rates and stress periods as well as other modeling approaches including roll rates and hybrid roll rate/ Company incurred loss and loss adjustment expenses of $111.0 million for

its direct Countrywide transactions during 2008. The Company's cumulative incurred loss and loss adjustm
December 31, 2008 were $111.0 million ($87.2 million after-tax). During 2008, the Company paid losses a
transactions of $170.0 million, of which we expect to recover $59.0 million from the receipt of excess spre
This amount of $59.0 million is included in "salvage recoverable" on the balance sheet. There were no incu
recoverable amounts on these transactions in 2007.

Credit support for HELOC transactions comes primarily from two sources. In the first instance, exces
enhancement and absorb losses. Over the past 12 months, excess spread (the difference between the interes
insured notes) has averaged approximately 270 basis points per annum. Additionally, for the transactions s
additional draws on the HELOC loans following the occurrence of a Rapid Amortization Event. Among ot
by us exceed a certain threshold. Prior to the occurrence of a Rapid Amortization Event, during the transac
funded first from principal collections. As such, during the revolving period no additional credit enhancem
our exposure amortizes is reduced to the extent of such additional draws, since principal collections are us
notes. Subsequent to the occurrence of a Rapid Amortization Event, new draws are funded by Countrywid
insured notes. Any draws funded by Countrywide are subordinate to us in the cash flow waterfall and henc
losses before we have to make a claim payment. Additionally, since all principal collections are used to pa
our exposure begins to amortize more quickly. A Rapid Amortization Event occurred for Countrywide 200

We have modeled our HELOC exposures under a number of different scenarios, taking into account t
affect transaction performance and potential losses to us. The key variables include the speed or rate at wh
the CPR(3), the default rate, as measured by the CDR(4), excess spread, and the amount of loans that are a
account the pool factor (the percentage of the original principal balance that remains outstanding), and the
noted that our contractual rights allow us to retroactively claim that loans included in the insured pool wer
these loans back to the seller such that we would not be responsible for losses related to these loans. Such a
have included in our loss model an estimated benefit for loans we expect Countrywide will repurchase.

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(3) The CPR is the annualized rate at which the portfolio amortizes, so that a 15% CPR implies that

(4) The CDR is the annualized default rate, so that a 1.0% CDR implies that 1.0% of the remaining

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The ultimate performance of the Company's HELOC transactions will depend on many factors, such a generated by the securitized loans, repayment speeds and changes in home prices, as well as the levels of c may have a material impact upon the ultimate performance of each transaction, including the ability of the including its obligation to fund future draws on lines of credit, as well as the amount of benefit received fr variables affecting transaction performance are interrelated, difficult to predict and subject to considerable assumptions, the losses incurred could be materially different from our estimate. We continue to update ou available.

The key assumptions used in our case loss reserves on the direct Countrywide transactions is presente

Key Variables	
Constant payment rate (CPR)	3-month average, currently 7 8%
Constant default rate (CDR)	6-month average CDR of approximately 19 21% during months 1 declining to 1.0% at the end of month 15. From months 16 onward, 1.0% CDR is assumed.
Draw rate	3-month average, currently 1 2%
Excess spread	250 bps per annum
Repurchases of Ineligible loans by Countrywide	$49.3 million; or approximately 2.1% of original pool balance of $2.4 billion
Loss Severity	100%

Subprime, Alt-A and Closed End Second RMBS Transactions

Another type of RMBS transaction is generally referred to as "Subprime RMBS". The collateral supp mortgage loans made to subprime borrowers. A "subprime borrower" is one considered to be a higher risk of December 31, 2008, we had net par outstanding of $6.6 billion related to Subprime RMBS securitizatio Investment Grade risk. Of the total U.S. Subprime RMBS exposure of $6.6 billion, $6.1 billion is from tra written in our direct financial guaranty segment. As of December 31, 2008, we had portfolio reserves of $8 $6.6 billion U.S. Subprime RMBS exposure, of which $6.9 million were portfolio reserves related to our $ for transactions issued from 2005 through 2007.

The problems affecting the subprime mortgage market have been widely reported, with rising delinqu performance of Subprime RMBS transactions. Those concerns relate primarily to Subprime RMBS issued exposure that we have to such transactions in our direct financial guaranty segment benefits from various s average currently equals approximately 54.3% of the remaining principal balance of the transactions.

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We also have exposure of $433.1 million to Closed-End Second ("CES") RMBS transactions, of whic
of RMBS, we have seen significant deterioration in the performance of our CES transactions. On two trans
we have seen a significant increase in delinquencies and collateral losses, which resulted in erosion of the
totaling $16.2 million. Based on the Company's analysis of these transaction and their projected collateral
December 31, 2008 in its direct segment. Additionally, as of December 31, 2008, the Company had portfo
segment and no case or portfolio reserves in its financial guaranty reinsurance segment related to its U.S. C

Another type of RMBS transaction is generally referred to as "Alt-A RMBS". The collateral supporti
mortgage loans made to prime quality borrowers that lack certain ancillary characteristics that would make
ARMs, which include transactions where 66% or more of the collateral is comprised of mortgage loans tha
December 31, 2008, the Company had net par outstanding of $7.6 billion related to Alt-A RMBS securitiz
in the period from 2005 through 2007 and written in the Company's financial guaranty direct segment. As
$6.5 million and case reserves of $1.5 million related to its $7.6 billion Alt-A RMBS exposure, in the fina

The ultimate performance of the Company's RMBS transactions remains highly uncertain and may be
many factors, including the level and timing of loan defaults, changes in housing prices and other variables
its RMBS exposures and will adjust the risk ratings of those transactions based on actual performance and

Life Insurance Securitizations

The Company has exposure on two life insurance reserve securitization transactions based on two dis
Scottish Re (U.S.) Inc. ("Scottish Re"). The two transactions relate to Ballantyne Re p.l.c. ("Ballantyne") (
("Orkney II") (gross exposure of $423 million). Under both transactions, monies raised through the issuanc
statutory life insurance reserve requirements. The monies were invested at inception of each transaction in
manager. However, those investment accounts have incurred substantial mark-to-market losses since mid-
subprime and Alt-A RMBS transactions. Largely as a result of these mark-to-market losses both we and th
Ballantyne and Orkney II to below investment grade. As regards the Ballantyne transaction, the Company
exposure of $900 million, to remediate the risk. On the Orkney Re II transaction, the Company, as directin

Some credit losses have been realized on the securities in the Ballantyne and Orkney Re II portfolios
Performance of the underlying blocks of life insurance business thus far generally has been in accordance
investment accounts and the treaty settlements currently is sufficient to cover interest payments due on the
rise in credit losses on the invested assets are expected to lead to interest shortfalls. Additionally, the trans
invested assets, reserve funding requirements on the underlying blocks of life insurance business, and mini

requirements for the transactions themselves that may trigger a shut off of interest payments to the insured

Another key risk is that the occurrence of certain events may result in a situation where either Ballant
potentially realize substantial investment losses and for Assured Guaranty Ltd. to incur corresponding insu
example, cedants to Scottish Re may have the right to recapture blocks of life insurance business which Sc
require Orkney Re II to sell assets and realize investment losses. In the Ballantyne transaction, further decl
increase in the reserve funding requirements could lead to a similar mandatory realization of investment lo
insured losses ahead of the scheduled final maturity date.

In order for the Company to incur an ultimate net loss on these transactions, adverse experience on th
losses in the investment portfolio would need to exceed the level of credit enhancement built into the trans
currently available, including estimates of future investment performance, projected credit impairments on
insurance business, at December 31, 2008, the Company established a case reserve of $17.2 million for the
losses resulting primarily from the deterioration in the investment portfolio as discussed above. At this tim
cedants discussed above to occur. Should these events occur our losses could be significantly greater than
reserve for the Orkney Re II transaction.

On December 19, 2008, the Company sued J.P. Morgan Investment Management Inc. ("JPMIM"), the
York Supreme Court alleging that JPMIM engaged in breaches of fiduciary duty, gross negligence and bre
of Orkney Re II. JPMIM requested and was given an extension of time to answer until the end of February

The Company has exposure to a public finance transaction for sewer service in Jefferson County, Ala
total exposure to this transaction is approximately $456 million as of December 31, 2008. The Company h
make additional payments in the near term. Through our cedants, the Company is currently in discussions
in some or all of these payments being recoverable. A case reserve of $6.0 million has been established as

A sensitivity analysis is not appropriate for our other segment reserves since the amounts are 100% re

We also record IBNR reserves for our other segment. IBNR is an estimate of losses for which the insu
reported to us. In establishing IBNR, we use traditional actuarial methods to estimate the reporting lag of s
information reported by ceding companies. We record IBNR for trade credit reinsurance within our other s
represents lines of business that we exited or sold as part of our 2004 IPO.

For mortgage guaranty transactions we record portfolio reserves in a manner consistent with our finan
insurance companies do not record portfolio reserves, rather just case and IBNR reserves, we record portfo
basis, while other industry participants write quota share or first layer loss business. We manage and under
guaranty

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insurance and reinsurance business because they have similar characteristics as insured obligations of mort

Statement of Financial Accounting Standards ("FAS") No. 60, "Accounting and Reporting by Insuran an insurance enterprise. FAS 60 prescribes differing reserving methodologies depending on whether a cont long-duration contract. Financial guaranty contracts have elements of long-duration insurance contracts in exceed 30 years or more, but for regulatory purposes are reported as property and liability insurance, whicl short-duration and long-duration classifications have different methods of accounting for premium revenue accounting for deferred acquisition costs ("DAC") could be different under the two methods.

We believe the guidance of FAS 60 does not expressly address the distinctive characteristics of financ guidance of Emerging Issues Task Force ("EITF") Issue No. 85-20, "Recognition of Fees for Guaranteeing the recognition of fees for guaranteeing a loan, which has similarities to financial guaranty insurance contr assess the probability of loss on an ongoing basis to determine if a liability should be recognized under FA requires that a loss be recognized where it is probable that one or more future events will occur confirming statements and the amount of loss can be reasonably estimated.

The following tables summarize our reserves for losses and LAE by segment and type of reserve as o reserves see " Consolidated Results of Operations."

	As of De	
	Financial Guaranty Direct	Financial Guaranty Reinsurance
	(in millio	
Financial Guaranty Insurance Reserves by segment and type(1):		
Case	$ 64.2	$ 55.7
IBNR		
Portfolio reserves associated with fundamentally sound credits	11.8	35.5
Portfolio reserves associated with CMC credits	15.8	6.7
Total financial guaranty insurance loss and LAE reserves	91.8	97.9
Credit Derivative Reserves by segment and type(2):		
Case	7.2	5.5
Credit derivative portfolio reserves associated with fundamentally sound credits	15.7	
Credit derivative portfolio reserves associated with CMC credits	23.4	
Total credit derivative loss and LAE reserves	46.3	5.5
Total loss and LAE reserves, including credit derivatives(3)	$ 138.1	$ 103.4

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	Financial Guaranty Direct	Financial Guaranty Reinsurance
	As of De	
	(in millio	
Financial Guaranty Insurance Reserves by segment and type of reserve(1):		
Case	$	$ 35.6
IBNR		
Portfolio reserves associated with fundamentally sound credits	17.0	33.0
Portfolio reserves associated with CMC credits	16.5	11.7
Total financial guaranty insurance loss and LAE reserves	33.5	80.3
Credit Derivative Reserves by segment and type(2):		
Case	3.2	
Credit derivative portfolio reserves associated with fundamentally sound credits	3.9	
Credit derivative portfolio reserves associated with CMC credits	1.2	
Total credit derivative loss and LAE reserves	8.3	
Total loss and LAE reserves, including credit derivatives(3)	$ 41.8	$ 80.3

(1) Included in Reserves for losses and loss adjustment expenses on the Balance Sheet.

(2) Included in Credit derivative liabilities/assets on the Balance Sheet.

(3) Total does not add due to rounding.

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

Ratings(1)	Net par outstanding	% of Net pa outstandin
	As of December 31, 200	
		(in billion
Super senior	$ 32.4	14.
AAA	40.7	18.
AA	47.7	21.
A	66.0	29.
BBB	29.4	13.
Below investment grade	6.6	3.
Total exposures(2)	$ 222.7	100.

(1) The Company's internal rating. The Company's scale is comparable to that of the nationally reco
not generally used by rating agencies, is used by the Company in instances where the Company's
to either (1) the existence of another security rated AAA that is subordinated to the Company's e
different form of credit enhancement that would pay any claims first in the event that any of the

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exposures incurs a loss, and such credit enhancement, in management's opinion, causes the Com
attachment point.

(2) Total does not add due to rounding.

The change in ratings above is mainly related to the Company's U.S. RMBS exposures.

Our surveillance department is responsible for monitoring our portfolio of credits and maintains a list
credits are divided into four categories: Category 1 (low priority; fundamentally sound, greater than norma
profile, may result in loss); Category 3 (high priority; claim/default probable, case reserve established); Ca
payments). The closely monitored credits include all below investment grade ("BIG") exposures where the
$10.0 million) or a material risk of the Company incurring a loss greater than $0.5 million. The closely mo
where credit quality is deteriorating and where, in the view of the Company, there is significant potential t
December 31, 2008, the closely monitored credits include approximately 99% of our BIG exposure, and th
across 89 different credits. As of December 31, 2007, the closely monitored credits include approximately
of $19.8 million was distributed across 46 different credits. Other than those excluded BIG credits, credits
categorized as fundamentally sound risks.

The following table provides financial guaranty insurance policy and credit derivative contract net pa
December 31, 2008 and 2007:

	As of De	
Description:	**Net Par Outstanding**	**% of Net I Outstandi**
		($
Fundamentally sound risk	$ 215,987	9
Closely monitored credits:		
Category 1	2,967	
Category 2	767	
Category 3	2,889	
Category 4	20	
CMC total(1)	6,643	
Other below investment grade risk	92	
Total(1)	$ 222,722	10

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		As of De
Description:	Net Par Outstanding	% of Net I Outstandi
		($
Fundamentally sound risk	$ 198,133	9
Closely monitored credits:		
Category 1	1,288	
Category 2	743	
Category 3	71	
Category 4	24	
CMC total(1)	2,126	
Other below investment grade risk	20	
Total	$ 200,279	10

(1) Total does not add due to rounding.

(2) Includes case reserves on credit derivatives of $12.7 million at December 31, 2008 and $3.2 mill credit derivative liabilities in the Company's consolidated balance sheets.

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

Net Par Outstanding	Category 1	Category 2	Ca
			($ in
Balance, December 31, 2007	$ 1,288	$ 743	$
Less: amortization	66	395	
Additions from first time on CMC	4,171	1,022	
Deletions Upgraded and removed	195		
Category movement	(2,231)	(603)	
Net change	1,679	24	
Balance, December 31, 2008	$ 2,967	$ 767	$

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The increase of $4,517 million in financial guaranty CMC net par outstanding during 2008 is mainly
exposures.

Industry Methodology

The Company is aware that there are certain differences regarding the measurement of portfolio loss l
In January and February 2005, the Securities and Exchange Commission ("SEC") staff had discussions co
participants. Based on those discussions, in June 2005, the Financial Accounting Standards Board ("FASB
financial guaranty contracts. In May 2008, the FASB issued FAS No. 163, "Accounting for Financial Gua
Statement No. 60" ("FAS 163"). FAS 163 requires that an insurance enterprise recognize a claim liability
evidence that credit deterioration has occurred in an insured financial obligation. FAS 163 also clarifies th
revenue recognition and claim liability measurement as well as requiring expanded disclosures about the i
provisions of FAS 163 related to premium revenue recognition and claim liability measurement are effecti
after December 15, 2008, and all interim periods within those fiscal years. Earlier application of these pro
activity disclosure provisions of FAS 163 are effective for the third quarter of 2008 and are included in No
consolidated financial statements in Item 8 of this Form 10-K. FAS 163 will be applied to all existing and
The cumulative effect of initially applying FAS 163 will be recorded as an adjustment to retained earnings
to have a material effect on our financial statements. We are in the process of estimating the impact of the
accounting policies in regards to premium revenue recognition and claim liability measurement until we c

Reclassification

Effective with the quarter ended March 31, 2008, we reclassified the revenues, expenses and balance
our financial guaranty subsidiaries write in the form of CDS contracts. The reclassification does not chang
reclassification is being adopted by us after agreement with member companies of the Association of Fina
Office of the Chief Accountant and the Division of Corporate Finance of the Securities and Exchange Co
to increase comparability of our financial statements with other financial guaranty companies that have C

Our CDS contracts provide for credit protection against payment default and have substantially the sa
contracts. Under United States Generally Accepted Accounting Principles, however, CDS contracts are su
policies are subject to insurance accounting rules.

In our accompanying consolidated statements of operations and comprehensive income, we have recl
"realized gains and other settlements on credit derivatives." Loss and loss adjustment expenses and recove
expenses (recoveries)" will be reclassified to "realized gains and other settlements on credit derivatives," a
will be reclassified from "loss and loss adjustment expenses (recoveries)" and will be included in "unrealiz

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gains (losses) on credit derivatives," which previously included only unrealized mark to market gains or lo consolidated balance sheet, we reclassified all CDS-related balances previously included in "unearned pre expenses," "prepaid reinsurance premiums," "premiums receivable" and "reinsurance balances payable" to assets," depending on the net position of the CDS contract at each balance sheet date.

Fair Value of Credit Derivatives

The Company follows FAS 133, FAS No. 149, "Amendment of Statement 133 on Derivative Instrum "Accounting for Certain Hybrid Financial Instruments" ("FAS 155"), which establishes accounting and rep "Fair Value Measurements" ("FAS 157"), which establishes a comprehensive framework for measuring fa derivatives on the balance sheet at fair value. FAS 157 defines fair value as the exchange price that would price) in the principal or most advantageous market for the asset or liability in an orderly transaction betwe also requires an entity maximize the use of observable inputs and minimize the use of unobservable inputs levels of inputs that may be used to measure fair value. The price shall represent that available in the princ market, then the price is based on the market that maximizes the value received for an asset or minimizes t market).

FAS 157 specifies a fair value hierarchy based on whether the inputs to valuation techniques used to r Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflec FAS 157, the fair value hierarchy prioritizes model inputs into three broad levels as follows:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for ider observable inputs other than quoted prices, such as interest rates or yield curves and ot inputs.

Level 3 Model derived valuations in which one or more significant inputs or significa use of observable market data when available.

An asset or liability's categorization within the fair value hierarchy is based on the lowest level of sig

We issue credit derivatives that we view as an extension of our financial guaranty business but that do exception under FAS 133 and FAS 149 and therefore are reported at fair value, with changes in fair value i

Our realized gains and other settlements on credit derivatives include credit derivative premiums rece and realized gains or losses due to early terminations and ceding commissions (expense) income. Credit de are earned over the life of the transaction. Claim payments or recoveries are related to credit events requiri contract. Realized gains or losses are recorded related to the early termination of credit derivative contracts

Our unrealized gains and losses on credit derivatives represent changes in fair value of these instrume unrealized gains and losses on credit derivatives will reduce to zero as the exposure approaches its maturit However, in the event that we terminate a credit derivative contract prior to maturity the unrealized gain or other settlements on credit derivatives. Changes in the fair value of our credit derivative contracts do not re Company's claims-paying resources, rating agency capital or regulatory capital positions or debt covenants

We do not typically exit our credit derivative contracts and there are not quoted prices for our instrum quoted market prices exist, however, these inputs reflect contracts that do not contain terms and conditions valuation of our credit derivative contracts requires the use of models that contain significant, unobservabl valuations are in Level 3 in the fair value hierarchy of FAS 157.

The fair value of these instruments represents the difference between the present value of remaining c estimated present value of premiums that a comparable financial guarantor would hypothetically charge fo of these contracts depends on a number of factors including notional amount of the contract, expected term the referenced entities, our own credit risk and remaining contractual flows.

Remaining contractual cash flows, which are included in the realized gains and other settlements on c readily observable variables since they are based on the CDS contractual terms. These variables include i) derivative contracts, ii) net premiums paid and payable on purchased contracts, iii) losses paid and payable recovered and recoverable on purchased contracts. The remaining key variables described above impact ur

Market conditions at December 31, 2008 were such that market prices for our CDS contracts were ge we used a combination of observable market data and valuation models, including various market indexes, payments to estimate the fair value of the Company's credit derivatives. These models are primarily develo transactions. Management considers the non-standard terms of its credit derivative contracts in determinin credit derivatives sold by companies outside of the financial guaranty industry. The non-standard terms inc immediate settlement provisions, relatively high attachment points and the fact that the Company does not under specific circumstances such as exiting a line of business. Because of these terms and conditions, the the same prices observed in an actively traded market of credit default swaps that do not contain terms and market. These models and the related assumptions are continuously reevaluated by management and enhan techniques and availability of more timely market information

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Valuation models include the use of management estimates and current market information. Managem
value of credit derivative instruments is affected by current market conditions. Management considers fact
performance of underlying assets, life of the instrument, and the extent of credit default swaps exposure th
nature and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that m
the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuat
derivative products, actual experience may differ from the estimates reflected in the Company's consolidat

The fair value adjustment excluding incurred losses on credit derivatives recognized in our statement
$81.7 million gain compared with a $666.9 million loss for the year ended December 31, 2007 and a $5.5 m
gain includes a gain of $4,147.6 million associated with the change in AGC's credit spread, which widened
1,775 basis points at December 31, 2008. Management believes that the widening of AGC's credit spread i
experienced currently by the broader financial markets and increased demand for credit protection against
the gain attributable to the significant increase in AGC's credit spread were declines in fixed income securi
certain markets as a result of the continued deterioration in credit markets and some credit rating downgrad
guaranteed by the Company. The higher credit spreads in the fixed income security market are due to the r
obligation and collateralized loan obligation markets as well as continuing market concerns over the most r
securities and commercial mortgage backed securities. The 2007 loss is primarily related to spreads widen
approximately 45% of the Company's unrealized loss on credit derivatives was due to a decline in the mark
collateralized loan obligation transactions, with the balance generated by lower market values principally i
markets. The 2006 loss of $5.5 million is primarily related to the run-off of transactions and changes in cre
market, the fair value adjustment amount will fluctuate significantly in future periods.

Fair Value of Committed Capital Securities ("CCS")

The fair value of CCS Securities represents the present value of remaining expected put option premiu
value of such estimated payments based upon the quoted price for such premium payments as of Decembe
value asset for CCS Securities as of December 31, 2008 and 2007, respectively, is included in the consolid
included in other income in the consolidated statements of operations and comprehensive income. In 2008
$42.7 million and $8.3 million, pre-tax, respectively, related to Assured Guaranty Corp.'s CCS Securities.

Valuation of Investments

As of December 31, 2008 and 2007, we had total investments of $3.6 billion and $3.1 billion, respecti
from independent market valuations. The fair values of the Company's U.S. Treasury securities are primari

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upon broker dealer quotes obtained from several independent active market makers. The fair values of the determined primarily using matrix pricing models. The matrix pricing models incorporate factors such as t and spreads, in order to calculate the fair values of specific securities owned by the Company. As of Decer securities were classified as Level 2 and our short-term investments were classified as either Level 1 or Le

As of December 31, 2008, approximately 87% of our investments were long-term fixed maturity secu compared with 82% and 3.9 years as of December 31, 2007. Changes in interest rates affect the value of ou of fixed maturity securities increases and as interest rates rise, the fair value of fixed maturity securities de high-quality, liquid instruments. We continue to receive sufficient information to value our investments an market conditions.

The following table summarizes the estimated change in fair value on our investment portfolio as of I interest rates across the entire yield curve:

Change in Interest Rates
300 basis point rise
200 basis point rise
100 basis point rise
100 basis point decline
200 basis point decline
300 basis point decline

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

Other Than Temporary Impairments

We have a formal review process for all securities in our investment portfolio, including a review for impairment include:

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

If we believe a decline in the value of a particular investment is temporary, we record the decline as a comprehensive income" in

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shareholders' equity. If we believe the decline is "other than temporary," we write down the carrying value
of operations. In periods subsequent to the recognition of an other-than-temporary impairment, the impaire
measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new co
periods based upon the amount and timing of expected future cash flows of the security, if the recoverable
greater than the carrying value of the investment after the impairment.

Our assessment of a decline in value includes management's current assessment of the factors noted a
ultimately record a loss after having originally concluded that the decline in value was temporary.

As part of our other than temporary impairment review process, we consider the nature of the investm
the severity (both as a percentage of book value and absolute dollars) and duration of the impairment and a
investment advisors, volatility of the securities fair value, recent news reports, etc., when performing our a

The Company recognized $71.3 million of other than temporary impairment losses substantially relat
ended December 31, 2008 primarily due to the fact that it does not have the intent to hold these securities u
continues to monitor the value of these investments. Future events may result in further impairment of the
investments for other than temporary impairment losses for the years ended December 31, 2007 and 2006.

As of December 31, 2008, excluding the securities described above, the Company's gross unrealized l
at December 31, 2007. The $113.6 million increase in gross unrealized losses was primarily attributable to
municipal securities, $48.6 million, and corporate securities, $10.4 million. The increase in these unrealize
related to the overall illiquidity in the financial markets and resulted in a sudden and severe depressed dem

As of December 31, 2008, the Company had 58 securities in an unrealized loss position for greater th
$31.6 million. Of these securities, 20 securities had unrealized losses greater than 10% of book value. The
2008 was $24.1 million. This unrealized loss is primarily attributable to the market illiquidity and volatility
individual issuer credit. Except as noted below, the Company has recognized no other than temporary impa
securities until a recovery in value.

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The following table summarizes the unrealized losses in our investment portfolio by type of security a
continuous unrealized loss position as of the dates indicated:

Length of Time in Continuous Unrealized Loss Position	As of December 31 Estimated Fair Value	Gr Unrea Los
Municipal securities		
0 6 months	$ 168.8	$
7 12 months	310.6	
Greater than 12 months	137.9	
	617.3	
Corporate and foreign government securities		
0 6 months	23.7	
7 12 months	81.9	
Greater than 12 months	14.2	
	119.8	
U.S. Government obligations		
0 6 months		
7 12 months	8.0	
Greater than 12 months		
	8.0	
Mortgage and asset-backed securities		
0 6 months	143.6	
7 12 months	111.0	
Greater than 12 months	74.4	
	329.0	
Preferred stock		
0 6 months	12.4	
7 12 months		
Greater than 12 months		
	12.4	
Total	$ 1,086.5	$ (

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The following table summarizes the unrealized losses in our investment portfolio by type of security a

Remaining Time to Maturity	As of December 31, 200 Estimated Fair Value	Gross Unrealize Losses
		($ i
Municipal securities		
Due in one year or less	$	$
Due after one year through five years	5.4	
Due after five years through ten years	42.4	(2
Due after ten years	569.5	(48
	617.3	(51
Corporate and foreign government securities		
Due in one year or less	0.8	
Due after one year through five years	23.9	(1
Due after five years through ten years	72.6	(6
Due after ten years	22.5	(4
	119.8	(11
U.S. Government obligations		
Due in one year or less	8.0	
Due after one year through five years		
Due after five years through ten years		
Due after ten years		
	8.0	
Mortgage and asset-backed securities		
	329.0	(59
Preferred stock		
	12.4	(0
Total	$ 1,086.5	$ (122

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The following table summarizes, for all realized losses through December 31, 2008 and 2007, the fair
in a continuous unrealized loss position prior to the date of sale of the security or the recognition of an oth

Length of Time in Continuous Unrealized Loss Position Prior to Sale	2 Estimated Fair Value
Municipal securities	
0 6 months	$ 2.5
7 12 months	
Greater than 12 months	3.6
	6.1
Corporate and foreign government securities	
0 6 months	6.4
7 12 months	3.6
Greater than 12 months	2.9
	12.9
U.S. Government securities	
0 6 months	
7 12 months	
Greater than 12 months	
Mortgage and asset-backed securities	
0 6 months	82.0
7 12 months	35.1
Greater than 12 months	51.4
	168.5
Preferred stock	
0 6 months	4.8
7 12 months	
Greater than 12 months	
	4.8
Total	$ 192.3

(1) Includes $71.3 million of other than temporary realized losses in 2008. There were no other than

Premium Revenue Recognition

Premiums are received either upfront or in installments. Upfront premiums are earned in proportion t
premium is earned ratably over its installment period, generally one year or less. Premium earnings under
are based upon and are in proportion to the principal amount guaranteed and therefore result in higher pre
higher. For insured bonds for which the par value outstanding is declining during the insurance

period, upfront premium earnings are greater in the earlier periods thus matching revenue recognition with
2007 and 2006, approximately 81%, 78% and 72%, respectively, of our gross written premiums were recei
received in installments. The premiums are allocated in accordance with the principal amortization schedu
amortization period. When an insured issue is retired early, is called by the issuer, or is in substance paid i
Government securities in escrow, the remaining unearned premium reserves are earned at that time. Unear
written that is applicable to the unexpired amount at risk of insured bonds.

In our reinsurance businesses, we estimate the ultimate written and earned premiums to be received f
of each year because some of our ceding companies report premium data anywhere from 30 to 90 days aft
in our statement of operations are based upon reports received from ceding companies supplemented by ou
reports have not yet been received. As of December 31, 2008, 2007 and 2006 the assumed premium estim
consolidated financial statements are $5.4 million and $1.0 million, $8.8 million and $2.0 million and $25.
used to arrive at management's best estimate of assumed premiums are premium amounts reported historic
Differences between such estimates and actual amounts are recorded in the period in which the actual amo
been material. We do not record a provision for doubtful accounts related to our assumed premium estima
to the collectibility of assumed premium. No provision for doubtful accounts related to our premium recei

Deferred Acquisition Costs

Acquisition costs incurred, other than those associated with credit derivative products, that vary with
deferred and amortized in relation to earned premiums. These costs include direct and indirect expenses su
of underwriting and marketing personnel. As of December 31, 2008 and 2007, we had deferred acquisition
Ceding commissions paid to primary insurers are the largest component of deferred acquisition costs, cons
December 31, 2008 and 2007, respectively. Management uses its judgment in determining what types of c
costs should be deferred. We annually conduct a study to determine which operating costs vary with, and a
qualify for deferral. Ceding commissions received on premiums we cede to other reinsurers reduce acquisi
servicing the insured or reinsured business are considered in determining the recoverability of acquisition
products are expensed as incurred. When an insured issue is retired early, as discussed in the Premium Re
Estimates, the remaining related deferred acquisition cost is expensed at that time.

Deferred Income Taxes

As of December 31, 2008 and 2007, we had a net deferred income tax asset of $129.1 million and a n
Certain of our subsidiaries are subject to U.S. income tax. Deferred income tax assets and liabilities are est
statement carrying amounts and tax bases of assets and liabilities using enacted rates in effect for the year
temporary differences

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relate principally to unrealized gains and losses on investments and credit derivatives, deferred acquisition
reserves, net operating loss carryforwards ("NOLs") and statutory contingency reserves. A valuation allow
that in management's opinion is more likely than not to be realized.

As of December 31, 2008, Assured Guaranty Re Overseas Ltd. ("AGRO") had a stand alone NOL of
31, 2007, which is available to offset its future U.S. taxable income. The Company has $27.2 million of thi
through 2023. AGRO's stand alone NOL is not permitted to offset the income of any other members of AC

Under applicable accounting rules, we are required to establish a valuation allowance for NOLs that v
utilized. Management has assessed the likelihood of realization of all of its deferred tax assets. Based on th
that $20.0 million of AGRO's $47.9 million NOL will not be utilized before it expires and has established
deferred tax asset. Management believes that all other deferred income taxes are more-likely-than-not to be
judgment, is reviewed quarterly and will be adjusted to the extent actual taxable income differs from estim
NOLs or capital losses.

Taxation of Subsidiaries

The Company's Bermuda subsidiaries are not subject to any income, withholding or capital gains taxe
subsidiaries are subject to income taxes imposed by U.S. and U.K. authorities and file applicable tax returr
elected under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. domestic corporation

The U.S. Internal Revenue Service ("IRS") has completed audits of all of the Company's U.S. subsidi
2001. In September 2007, the IRS completed its audit of tax years 2002 through 2004 for Assured Guarant
includes Assured Guaranty Overseas US Holdings Inc., AGRO, Assured Guaranty Mortgage Insurance Co
there were no significant findings and no cash settlements with the IRS. In addition the IRS is reviewing A
("AGUS") for tax years 2002 through the date of the IPO. AGUS includes Assured Guaranty US Holdings
consolidated tax return of a subsidiary of ACE Limited ("ACE"), our former Parent, for years prior to the I
tax liability associated with the tax examination of AGUS as it relates to years prior to the IPO. In addition

Uncertain Tax Positions

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in
("FIN 48"), on January 1, 2007. As a result of the adoption of FIN 48, the Company reduced its liability fo
by $2.6 million. The total liability for unrecognized tax benefits as of January 1, 2007 was $12.9 million. T
tax rate.

Subsequent to the adoption of FIN 48, the IRS published final regulations on the treatment of consoli
certain capital losses is no longer at a level that would require recording an associated liability for an uncer

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Company decreased its liability for unrecognized tax benefits and its provision for income taxes $4.1 milli
2007, upon completion of the IRS audit of Assured Guaranty Overseas US Holdings Inc. and subsidiaries,
approximately $6.0 million.

The total liability for unrecognized tax benefits as of December 31, 2008 and 2007 was $5.1 million a
liabilities on the balance sheets. During the year ended December 31, 2008 the net liability increased by ap
intends to take on the Company's 2008 tax return. The Company does not believe it is reasonably possible
months.

The Company's policy is to recognize interest and penalties related to uncertain tax positions in incom
accrued $0.9 million in interest and penalties.

Liability For Tax Basis Step-Up Adjustment

In connection with the IPO, the Company and ACE Financial Services Inc. ("AFS"), a subsidiary of A
Company and AFS made a "Section 338 (h)(10)" election that has the effect of increasing the tax basis of c
fair value. Future tax benefits that the Company derives from the election will be payable to AFS when rea

As a result of the election, the Company has adjusted its net deferred tax liability to reflect the new ta
is expected to result in increased future income tax deductions and, accordingly, may reduce income taxes
by the Company will be paid to AFS. Such tax benefits will generally be calculated by comparing the Com
would have been owed by those subsidiaries had the increase in basis not occurred. After a 15 year period,
Company and AFS will negotiate a settlement of the unrealized benefit based on the expected realization a

The Company initially recorded a $49.0 million reduction of its existing deferred tax liability, based o
Section 338(h)(10) election. Under the tax allocation agreement, the Company estimated that, as of the IPO
accordingly established this amount as a liability. The initial difference, which is attributable to the change
associated step-up in the tax basis of its assets and no amounts due to AFS, resulted in an increase to additi
2008 and 2007, the liability for tax basis step-up adjustment, which is included in the Company's balance s
respectively. The Company has paid ACE and correspondingly reduced its liability by $0.7 million and $5

Accounting for Share-Based Compensation

Prior to January 1, 2006, we accounted for our share-based employee compensation plans under the m
Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Int
Stock-Based Compensation" ("FAS 123").

Effective January 1, 2006, we adopted the fair value recognition provisions of FAS No. 123 (revised)
prospective transition method. Under that transition method, compensation expense includes: (a) compensa
but not yet vested as of January 1, 2006, based on the grant date fair

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value estimated in accordance with the original provisions of FAS 123, and (b) compensation expense for a
based on the grant date fair value estimated in accordance with the provisions of FAS 123R. Because we e
results for prior periods have not been restated.

The following table presents pre-DAC and pre-tax, share-based compensation cost by share-based exp

(in thousands of U.S. dollars)	2
Share-Based Employee Cost	
Restricted Stock	
Recurring amortization	$
Accelerated amortization for retirement eligible employees	
Subtotal	
Restricted Stock Units	
Recurring amortization	
Accelerated amortization for retirement eligible employees	
Subtotal	
Stock Options	
Recurring amortization	
Accelerated amortization for retirement eligible employees	
Subtotal	
ESPP	
Total Share-Based Employee Cost	1
Share-Based Directors Cost	
Restricted Stock	
Restricted Stock Units	
Total Share-Based Directors Cost	
Total Share-Based Cost	**$ 1**

At December 31, 2008, there was $12.3 million of total unrecognized compensation cost related to no
under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future cha
cost over a weighted average period of 1.5 years. As a result of the adoption of FAS 123R, the income tax
computation of the income tax expense (benefit), and deferred tax assets and liabilities, subject to certain p
differences between the income tax effects of expenses recognized in the results of operations and the relat
adoption of FAS 123R, the tax benefits relating to the income tax deductions for compensatory stock optio

The weighted-average grant-date fair value of options granted were $7.59, $6.83 and $6.71 for the yea
The fair value of options issued is

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estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-

	2008
Dividend yield	0.8%
Expected volatility	35.10%
Risk free interest rate	2.8%
Expected life	5 years
Forfeiture rate	6.0%

These assumptions were based on the following:

The expected dividend yield is based on the current expected annual dividend and shar

Expected volatility is estimated at the date of grant based on the historical share price v

The risk-free interest rate is the implied yield currently available on U.S. Treasury zero
granted stock options,

The expected life is based on the average expected term of our guideline companies, w
Company has insufficient expected life data,

The forfeiture rate is based on the rate used by our guideline companies, since the Com
will be reassessed at each balance sheet date and may change based on new facts and c

For options granted before January 1, 2006, the Company amortizes the fair value on an accelerated b
Company amortizes the fair value on a straight-line basis. All options are amortized over the requisite serv
periods, with the exception of retirement-eligible employees. Stock options are generally granted once a ye
of grant. The Company may elect to use different assumptions under the Black-Scholes option valuation m
Company's net income or earnings per share.

Accounting for Cash-Based Compensation

In February 2006, the Company established the Assured Guaranty Ltd. Performance Retention Plan. T
employees which vest after four years of continued employment (or earlier, if the employee's termination o
was revised in 2008 giving the Compensation Committee greater flexibility in establishing the terms of per
different performance periods and performance objectives. See Note 20 "Employee Benefit Plans" to the c
for greater detail about the Performance Retention Plan.

The Company's compensation expense for the years ended December 31, 2008 and 2007 was in the fo
made in 2008 (which vest over a four year period) and 2007 (which cliff vest after 4 years). The Company
tax) and $0.2 million ($0.1 million after tax) of expense for performance retention awards in 2008 and 200
of accelerated expense related to retirement-eligible employees.

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Goodwill

In connection with FAS No. 142, "Goodwill and Other Intangible Assets", the Company does not am
impairment test annually or more frequently should circumstances warrant. The impairment test evaluates
Company's direct and reinsurance lines of business to their carrying value. If fair value is greater than carr
there is no impairment. If fair value is less than carrying value then goodwill is deemed to be impaired and
reporting unit is equal to the carrying value, but not less than $0. No such impairment to goodwill was rec

As part of the impairment test of goodwill, there are inherent assumptions and estimates used by man
our direct and reinsurance lines of business that are subject to change based on future events. Management
losses, expenses, interest rates, cost of capital and tax rates. Many of the factors used in assessing fair valu
likely that assumptions and estimates will change in future periods. These changes can result in future imp

The Company has concluded that it is reasonably likely that the goodwill associated with our reinsura
if the volume of new business in the financial guaranty reinsurance market does not return to historical lev
continue to execute portfolio based reinsurance contracts on blocks of business for other financial guarant
may cause a triggering event that will cause management to reassess its goodwill amounts related to its rei
consolidated financial statements in Item 8 of this 10-K for greater detail about Goodwill.

**Information on Residential Mortgage Backed Securities ("RMBS"), Subprime RMBS, Collater
("CDOs of ABS") and Prime RMBS Exposures**

Our Risk Management and Surveillance personnel are responsible for monitoring and reporting on all
of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterio
be necessary or appropriate. All transactions in the insured portfolio are risk rated, and surveillance person
changes in transaction credit quality. In assessing the credit quality of our insured portfolio, we take into c
factors include the amount of credit support or subordination benefiting our exposure, delinquency and los
exposure has amortized and the year in which it was insured.

The tables below provide information on the risk ratings and certain other risk characteristics of the C
exposures as of December 31, 2008 (dollars in millions):

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Distribution of U.S. RMBS by Rating(1) and by Segment as o

Ratings(1):	Direct Net Par Outstanding	%	Reinsurance Net Par Outstanding
Super senior	$ 6,384	36.9%	$
AAA	1,471	8.5%	201
AA	1,461	8.4%	101
A	2,360	13.6%	98
BBB	1,724	10.0%	185
Below investment grade	3,918	22.6%	489
	$ 17,319	100.0%	$ 1,074

Distribution of U.S. RMBS by Rating(1) and Type of Exposure a

Ratings(1):	Prime First Lien	Prime Closed End Seconds	Prime HELOC	Alt-A First Lien
Super senior	$ 672	$ 47	$	$ 2,746
AAA	335	60	13	738
AA	171	135	13	514
A	74		8	886
BBB	681	5	102	24
Below investment grade	26	185	1,602	1,310
Total exposures	$ 1,959	$ 433	$ 1,738	$ 6,218

Distribution of U.S. RMBS by Year Insured and Type of Exposure

Year Insured:	Prime First Lien	Prime Closed End Seconds	Prime HELOC	Alt-A First Lien
2004 and prior	$ 224	$	$ 140	$ 57
2005	214		739	383
2006	431	5	146	
2007	1,090	428	713	3,249
2008				2,529
Total exposures	$ 1,959	$ 433	$ 1,738	$ 6,218

(1) Assured's internal rating. Assured's scale is comparable to that of the nationally recognized ratin used by rating agencies, is used by the Company in instances where Assured's AAA-rated expos existence of another security rated AAA that is subordinated to Assured's exposure or (2) Assure enhancement that would pay any claims first in the event that any of the exposures incurs a loss causes Assured's attachment point to be materially above the AAA attachment point.

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Distribution of U.S. RMBS by Rating(1) and Year Insured as o

Year insured:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$ 253	$ 159	$ 136
2005		346	125	136
2006	2,920	184	541	400
2007	1,314	344	736	1,785
2008	2,150	545		
	$6,384	$1,672	$1,561	$2,458
% of total	34.7%	9.1%	8.5%	13.4

Distribution of U.S. Prime HELOC RMBS by Rating(1) and Year Insu

Year insured:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$ 2	$ 12	$ 5
2005				2
2006				
2007		11	2	
2008				
	$	$ 13	$ 13	$ 8
% of total	0.0%	0.8%	0.8%	0.4

Distribution of U.S. Closed End Seconds RMBS by Rating(1) and Year I

Year insured:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$	$	$
2005				
2006				
2007	47	60	135	
2008				
	$ 47	$ 60	$ 135	$
% of total	10.9%	14.0%	31.2%	0.0

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Distribution of U.S. Alt-A RMBS by Rating(1) and Year Insured

Year insured:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$ 19	$ 16	$
2005		228	42	
2006				
2007	595	113	456	886
2008	2,150	378		
	$2,746	$ 738	$ 514	$ 886
% of total	44.2%	11.9%	8.3%	14.3

Distribution of U.S. Alt-A Option ARM RMBS by Rating(1) and Year I

Year insured:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$ 39	$ 14	$ 17
2005				43
2006				
2007		5	68	272
2008		151		
	$	$ 195	$ 82	$ 333
% of total	0.0%	13.8%	5.8%	23.6

Distribution of U.S. Subprime RMBS by Rating(1) and Year Insure

Year insured:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$ 173	$ 38	$ 41
2005		5		90
2006	2,920	125	532	400
2007		12	75	627
2008		16		
	$2,920	$ 331	$ 645	$1,157
% of total	44.0%	5.0%	9.7%	17.4

(1) Assured's internal rating. Assured's scale is comparable to that of the nationally recognized ratin used by rating agencies, is used by the Company in instances where Assured's AAA-rated expos existence of another security rated AAA that is subordinated to Assured's exposure or (2) Assure enhancement that would pay any claims first in the event that any of the exposures incurs a loss causes Assured's attachment point to be materially above the AAA attachment point.

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Distribution of Financial Guaranty Direct U.S. RMBS by Rating(1) and Type

Ratings(1):	Prime First Lien	Prime Closed End Seconds	Prime HELOC	Alt-A First Lien
Super senior	$ 672	$ 47	$	$ 2,746
AAA	252	58		736
AA	83	134	6	512
A				886
BBB	613		17	20
Below investment grade		185	1,220	1,294
Total exposures	$ 1,620	$ 424	$ 1,242	$ 6,193

Distribution of Financial Guaranty Direct U.S. RMBS Net Par Outstanding by Rating

Year issued:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$ 163	$ 71	$ 50
2005	2,020	461	656	530
2006	1,189		75	150
2007	3,175	847	658	1,630
2008				
	$6,384	$1,471	$1,461	$2,360
% of total	36.9%	8.5%	8.4%	13.6

Distribution of Financial Guaranty Direct U.S. RMBS Net Par Outstanding by Rating(

Year issued:	Super Senior	AAA Rated	AA Rated	A Rated
2004 and prior	$	$ 163	$ 71	$ 50
2005		337	124	130
2006	2,920	124	532	400
2007	1,314	318	733	1,780
2008	2,150	529		
	$6,384	$1,471	$1,461	$2,360
% of total	36.9%	8.5%	8.4%	13.6

(1) Assured's internal rating. Assured's scale is comparable to that of the nationally recognized ratin used by rating agencies, is used by the Company in instances where Assured's AAA-rated expos existence of another security rated AAA that is subordinated to Assured's exposure or (2) Assure enhancement that would pay any claims first in the event that any of the exposures incurs a loss, causes Assured's attachment point to be materially above the AAA attachment point.

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Distribution of Financial Guaranty Direct U.S. RMBS by Year Insur

Year insured:	Prime First Lien	Prime Closed End Seconds	Prime HELOC	Alt-A First Lien
2004 and prior	$	$	$ 22	$ 51
2005	192		605	383
2006	342			
2007	1,085	424	614	3,230
2008				2,529
	$ 1,620	$ 424	$ 1,242	$ 6,193

Distribution of Financial Guaranty Direct U.S. RMBS by Year Issue

Year issued:	Prime First Lien	Prime Closed End Seconds	Prime HELOC	Alt-A First Lien
2004 and prior	$	$	$ 22	$ 51
2005	192		605	383
2006	342			379
2007	1,085	424	614	5,380
2008				
	$ 1,620	$ 424	$ 1,242	$ 6,193

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Distribution of Financial Guaranty Direct U.S. Mortgage-Backed Securities Issued January 1, 2005 Subordination, Cumulative Losses and 60+ Day Delinquencies as of December 31, 2008(1)

U.S. Prime First Lien

Year issued:	Net Par Outstanding	Pool Factor(2)	Subordination(3)	Cumulati Losses(4
2005	$ 192	75.8%	5.4%	0.1
2006	342	69.1%	5.3%	0.0
2007	1,085	87.6%	10.5%	0.2
2008		N/A	N/A	N/
	$ 1,620	82.3%	8.8%	0.1

U.S. Prime CES

Year issued:	Net Par Outstanding	Pool Factor(2)	Subordination(3)	Cumulati Losses(4
2005	$	N/A	N/A	N/
2006		N/A	N/A	N/
2007	424	67.5%	25.7%	24.5
2008		N/A	N/A	N/
	$ 424	67.5%	25.7%	24.5

U.S. Prime HELOC

Year issued:	Net Par Outstanding	Pool Factor(2)	Subordination(3)	Cumulati Losses(4
2005	$ 605	33.5%	0.0%	10.5
2006		N/A	N/A	N/
2007	614	68.8%	0.0%	14.0
2008		N/A	N/A	N/
	$ 1,220	51.3%	0.0%	12.3

U.S. Alt-A First Lien

Year issued:	Net Par Outstanding	Pool Factor(2)	Subordination(3)	Cumulati Losses(4
2005	$ 383	61.9%	11.6%	0.7
2006	379	76.6%	39.5%	1.8
2007	5,380	79.4%	20.7%	0.8
2008		N/A	N/A	N/
	$ 6,142	78.1%	21.3%	0.9

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U.S. Alt-A Option ARMs

Year issued:	Net Par Outstanding	Pool Factor(2)	Subordination(3)	Cumulati Losses(4
2005	$ 42	34.1%	27.9%	0.5
2006	57	57.0%	19.3%	0.7
2007	1,240	79.1%	21.8%	0.6
2008		N/A	N/A	N/
	$ 1,339	76.7%	21.9%	0.6

U.S. Subprime First Lien

Year issued:	Net Par Outstanding	Pool Factor(2)	Subordination(3)	Cumulati Losses(4
2005	$ 3,643	34.1%	62.6%	5.7
2006	1,900	50.5%	41.8%	7.4
2007	516	51.9%	42.1%	7.5
2008		N/A	N/A	N/
	$ 6,059	40.8%	54.3%	6.4

U.S. CMBS

Year issued:	Net Par Outstanding	Pool Factor(2)	Subordination(3)	Cumulati Losses(4
2005	$ 3,429	96.8%	28.9%	0.0
2006	1,418	98.5%	30.1%	0.0
2007	533	90.6%	20.0%	0.0
2008		N/A	N/A	N/
	$ 5,380	96.6%	28.3%	0.0

---

(1) Net par outstanding is based on values as of December 2008. With the exception of the US Prim CMBS portfolios which are as of December 2008, the pool factor, subordination, cumulative los information obtained from Intex, Bloomberg, and/or provided by the trustee and may be subject

(2) Pool factor is the percentage of net par outstanding divided by the original net par outstanding of

(3) Represents the sum of subordinate tranches and over-collateralization, expressed as a percentage from excess interest collections that may be used to absorb losses.

(4) Cumulative losses are defined as net charge-offs on the underlying loan collateral divided by the

(5) 60+ day delinquencies are defined as loans that are greater than 60 days delinquent and all loans outstanding.

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**Financial Guaranty Direct Collateralized Debt Obligations of Asset-Backed Securities (CDOs of AB
Insured and by Collateral:**

			Type of Collateral as a Percent of Total Pool						
Year Insured	Legal Final Maturity(2)	Net Par Outstanding	ABS	RMBS (Includes Subprime)	Comm. MBS (CMBS)(3)	CDOs of Investment Grade Corporate	CDOs of ABS	Total Collateral Pool	U.S. Subprime First Lien RMBS
CDOs of Mezzanine ABS(3):									
2001	2017	$ 113.5	0%	0%	100%	0%	0%	100%	0%
2001	2016	59.7	0%	0%	100%	0%	0%	100%	0%
2002	2017	102.1	0%	0%	100%	0%	0%	100%	0%
2002	2017	92.9	0%	0%	100%	0%	0%	100%	0%
2002	2017	88.7	0%	0%	100%	0%	0%	100%	0%
2002	2017	64.8	0%	0%	100%	0%	0%	100%	0%
2003	2018	118.6	0%	0%	100%	0%	0%	100%	0%
2003	2038	74.5	0%	0%	100%	0%	0%	100%	0%
2003	2018	46.5	0%	0%	100%	0%	0%	100%	0%
	Subtotal:	**$ 761.3**	**0%**	**0%**	**100%**	**0%**	**0%**	**100%**	**0%**
CDOs of High Grade ABS(4):									
No CDO of ABS business written									
CDOs of Pooled AAA ABS(5):									
2003	2010	636.2	35%	34%	26%	5%	0%	100%	0%
	Subtotal:	**$ 636.2**	**35%**	**34%**	**26%**	**5%**	**0%**	**100%**	**0%**
Total:		**$1,397.5**	**16%**	**15%**	**66%**	**2%**	**0%**	**100%**	**0%**

(1) A "CDO of ABS" is a collateralized debt obligation (CDO) transaction whose collateral pool consists primar
securities (MBS). ABS transactions securities generally represent an ownership interest in a trust that contai
several tranches that can have varying levels of subordination, credit protection triggers and credit ratings.

(2) "Legal Final Maturity" represents the final date for payment specified in the transaction documents and does
and weighted average life.

(3) "CDOs of Mezzanine ABS" is a market term that refers to transactions where the underlying collateral at issu
lower. The collateral underlying Assured's exposure to CDOs of Mezzanine ABS is comprised of mezzanine
commercial property REITs. The transactions to which Assured has exposure are static pools rather than acti
originated primarily in the period from 1997-2003. The collateral underlying Assured's exposure to CDOs o
information as of December 31, 2008, as follows: 16% AAA, 8% AA, 13% A, 45% BBB and 18% below in

(4) "CDOs of High Grade ABS" is a market term that refers to transactions where the underlying collateral at is

(5) "CDOs of Pooled AAA ABS" is a market term that refers to transactions where the underlying collateral at i
Assured's exposure to CDOs of Pooled AAA ABS was rated, based on rating information as of December 31

(6) Represents the sum of subordinate tranches and over-collateralization and does not include any benefit from

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Consolidated Results of Operations

The following table presents summary consolidated results of operations data for the years ended Dec

Revenues:	
Gross written premiums	$
Net written premiums	
Net earned premiums	
Net investment income	
Net realized investment losses	
Change in fair value of credit derivatives	
Realized gains and other settlements on credit derivatives	
Unrealized gains (losses) on credit derivatives	
Net change in fair value of credit derivatives	
Other income	
Total revenues	
Expenses:	
Loss and loss adjustment expenses	
Profit commission expense	
Acquisition costs	
Operating expenses	
Interest expense	
Other expense	
Total expenses	
Income (loss) before provision (benefit) for income taxes	
Provision (benefit) for income taxes	
Net income (loss)	$
Underwriting (loss) gain by segment:	
Financial guaranty direct	$
Financial guaranty reinsurance	
Mortgage guaranty	
Other	
Total	$

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

We organize our business around four principal business segments: financial guaranty direct, financia are a number of lines of business that we exited as part of our April 2004 IPO, which are included in the ot reflected in the above numbers.

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Net Income (Loss)

Net income (loss) was $68.9 million, $(303.3) million and $159.7 million for the years ended Decemb
$372.2 million in 2008 compared with 2007 was primarily due to the following factors:

a $38.0 million unrealized gain on credit derivatives in 2008 compared with a $(670.4)
2008, the widening of the Company's own credit spread, which was substantially offse
market, leading to a relatively small net unrealized gain. During 2007, market spreads
spread leading to the $(670.4) million unrealized loss. The unrealized loss on credit de
$(487.9) million for 2008 and 2007, respectively. With considerable volatility continui
future periods, See Note 4 "Credit Derivatives" to the consolidated financial statement
credit derivatives as of December 31, 2008 and 2007,

an increase of $102.1 million in net earned premium to $261.4 in 2008 from $159.3 mi
growth in our in-force book of business and an increase in net earned premiums attribu
unscheduled pre-payment or refundings of underlying municipal bonds, of $61.9 millio

an increase of $34.5 million in net investment income to $162.6 million in 2008 from $
invested assets from positive operating cash flows as well as increased capital from eq

an increase of $34.6 million in other income, which included a fair value gain of $42.7
Guaranty Corp.'s committed capital securities.

Partially offsetting these positive factors were:

a decrease of $170.9 million in underwriting gain (loss) to $(76.4) million underwriting
gain in 2007, primarily due to an increase in loss and loss adjustment expenses associa

an increase in net realized investment (losses) of $(68.5) million primarily related to th
temporary impairment,

an increase of $3.6 million in operating expenses during 2008, resulting from (1) the a
new stock awards in 2008 and the related amortization as well as the accelerated vestin
required by FAS 123R and (2) expansion of our performance retention plan, and

a $203.2 million increase in our provision (benefit) for income tax to a $43.4 million p
2007. This provision is mainly related to the unrealized gain on credit derivatives reco
recognized in 2007. In addition, the 2007 provision for income taxes included a $10.1
was reduced subsequent to the adoption of FIN 48, due to final regulations on the treat
losses and as a result of the completion of an IRS audit of Assured Guaranty Overseas

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The decrease in net income of $463.0 million to a net (loss) of $(303.3) million in 200
following factors:

a $(670.4) million unrealized loss on credit derivatives in 2007 compared with a $11.8
attributable to credit spreads widening in all asset classes including residential and con
loss included no credit losses. Net of related income taxes, the unrealized (loss) gain o
2007 and 2006, respectively,

an increase of $8.4 million in other income, which included a fair value gain of $8.3 m
Guaranty Corp.'s committed capital securities,

a $9.7 million increase in interest expense to $23.5 million in 2007 from $13.8 million
to our Series A Enhanced Junior Subordinated Debentures which were issued in Decer

an increase of $11.9 million in operating expenses to $79.9 million in 2007 from $68.0
employee related expenses due to staffing additions and merit increases. Also contribu
and stock option awards, due to new stock awards in 2007 and the related amortization
retirement eligible employees as required by FAS 123R, which the Company adopted

Partially offsetting these negative factors were:

an increase of $3.5 million in underwriting gain to $94.5 million in 2007 from $91.0 m

an increase of $16.6 million in net investment income to $128.1 million in 2007 from
increased invested assets due to positive operating cash flows, and

a $10.1 million reduction in our provision for income taxes in 2007 due to a reduction
adoption of FIN 48, due to final regulations on the treatment of a tax uncertainty regar
completion of an IRS audit of Assured Guaranty Overseas US Holdings Inc. and subsi

Gross Written Premiums

Gross Written Premiums	Year E 2008
	(
Financial guaranty direct	$484.7
Financial guaranty reinsurance	129.3
Mortgage guaranty	0.7
Total financial guaranty gross written premiums	614.7
Other	3.5
Total gross written premiums	$618.3

Gross written premiums for the year ended December 31, 2008 were $618.3 million, compared with
increase of $193.8 million, or 46%. Gross written premiums in our financial guaranty direct operations inc
due to a $371.8 million increase in U.S. generated business, of which

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$355.8 million was from our upfront U.S. public finance business, as we continue to increase our market sl
international business to $16.9 million in 2008, compared with $71.3 million for the year ended December
in our financial guaranty reinsurance segment decreased $121.7 million primarily due to a large portfolio a
contributed $143.2 million to gross written premiums in the fourth quarter of 2007. The decrease in gross v
related to the run-off of our quota share treaty business as well as commutations executed in the latter part

Gross written premiums for the year ended December 31, 2007 were $424.5 million compared with $
increase of $163.2 million, or 62%. Our 2007 financial guaranty direct segment increased $42.3 million du
business and $18.1 million in our U.S. structured finance business, while our international infrastructure bu
segment increased $127.1 million in 2007 compared with 2006 primarily due to execution of a reinsurance
whereby we assumed a diversified portfolio of financial guaranty transactions, which resulted in gross writ
2007 in our mortgage guaranty segment decreased $5.7 million compared with 2006, primarily attributable
executed in the latter part of 2006.

Net Earned Premiums

Net Earned Premiums
Financial guaranty direct
Financial guaranty reinsurance
Mortgage guaranty
Total financial guaranty net earned premiums
Other
Total net earned premiums

Net earned premiums for the year ended December 31, 2008 increased $102.1 million, or 64%, comp
guaranty direct net earned premiums increased $37.2 million in 2008, compared with 2007. This increase i
business, resulting in increased net earned premiums. The year ended December 31, 2008 had $1.3 million
financial guaranty direct segment compared to $2.8 million in 2007. Public finance refunding premiums re
underlying municipal bonds. The increase in financial guaranty reinsurance segment was due to the increas
$60.6 million in 2008. This increase is primarily a result of greater refundings of municipal auction rate an
Excluding refundings, our financial guaranty reinsurance segment increased $31.2 million in 2008 compar
Ambac in December 2007, which contributed $56.9 million to net premiums earned in 2008. The $11.8 mi
guaranty segment in 2008 compared with 2007 reflects the run-off of our quota share treaty business as we

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Net earned premiums for the year ended December 31, 2007 increased $14.5 million, or 10%, compar
premiums from our financial guaranty direct operations increased to $52.8 million in 2007 compared with
in-force book of business, resulting in increased net earned premiums, and to public finance refundings wh
2006 amounts had no earned premiums from public finance refundings in the financial guaranty direct seg
guaranty reinsurance and mortgage guaranty segments in 2007 compared to 2006 were primarily related to

Net Investment Income

Net investment income was $162.6 million, $128.1 million and $111.5 million and had pre-tax yields
December 31, 2008, 2007 and 2006, respectively. The $34.5 million increase in investment income in 200
assets due to positive operating cash flows as well as increased capital from equity offerings in April 2008
in 2007 compared with 2006 was mainly due to increased invested assets due to positive operating cash flo

Net Realized Investment Losses

Realized investment gains and losses are determined using the specific identification method and are
principally from the sale of fixed maturity securities, were $(69.8) million, $(1.3) million and $(2.0) millio
respectively. The Company recognized $71.3 million of other than temporary impairment losses substantia
the year ended December 31, 2008 primarily due to the fact that it does not have the intent to hold these se
had no write downs of investments for other than temporary impairment losses in 2007 and 2006. Net reali
$(62.7) million, $(1.3) million and $(1.5) million for the years ended December 31, 2008, 2007 and 2006,

Realized Gains and Other Settlements on Credit Derivatives

Realized gains and other settlements on credit derivatives
Net credit derivative premiums received and receivable:
Direct segment
Reinsurance segment
Total net credit derivative premiums received and receivable
Net credit derivative losses recovered and recoverable
Ceding commissions (paid/payable) received/receivable, net
Total realized gains and other settlements on credit derivatives

Realized gains and other settlements on credit derivatives, were $117.6 million, $74.0 million and $7
2006, respectively. Total net credit derivative premiums received and receivable, which represents premiu
was $118.1 million, $72.7 million and $61.9 million for the years ended December 31, 2008, 2007 and 20
direct segment business written in credit derivative form. Net credit derivative losses recovered and recove
years ended December 31, 2008, 2007

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and 2006, respectively, relates to recoveries received by us in those years for claim payments made in prio
these contracts in either 2008, 2007 or 2006.

Unrealized Gains (Losses) on Credit Derivatives

Unrealized gains (losses) on credit derivatives
Pre-tax:
Unrealized gains (losses) on credit derivatives, excluding incurred losses on credit derivatives
Incurred (losses) gains on credit derivatives
Total unrealized gains (losses) on credit derivatives
After-tax:
Unrealized gains (losses) on credit derivatives, excluding incurred losses on credit derivatives
Incurred (losses) gains on credit derivatives
Total unrealized (losses) gains on credit derivatives

Credit derivatives are recorded at fair value as required by FAS 133, FAS 149 and FAS 155. The char $38.0 million gain compared with a $670.4 million loss for the year ended December 31, 2007 and a $11.8 value for 2008 was attributable to the widening of credit default spreads traded on AGC, which increased f points at December 31, 2008. For the year ended December 31, 2008, approximately 50% of our unrealize high yield and investment grade corporate collateralized loan obligation transactions, with the balance of t commercial mortgage backed securities markets. The change in fair value for 2007 was attributable to spre ended 2007, approximately 45% of the Company's unrealized loss on credit derivatives was due to a declir corporate collateralized loan obligation transactions, with the balance generated by lower market values pr securities markets. Changes in the fair value of our derivative contracts do not reflect actual claims or cred resources, rating agency capital or regulatory capital positions. With considerable volatility continuing in t significantly in future periods. The change in fair value of $11.8 million for 2006 was related to many fact in credit spreads. Unrealized gains (losses) on credit derivatives, excluding incurred losses on credit deriva $(485.4) million and $4.0 million in 2008, 2007 and 2006, respectively.

The gain or loss created by the estimated fair value adjustment will rise or fall based on estimated ma Fair value is defined as the amount at which an asset or liability could be bought or sold in a current transa contracts which require us to make payments upon the occurrence of certain defined credit events relating obligation). The Company's credit derivative exposures are substantially similar to its financial guaranty in payment default. They are contracts that are generally held to maturity. The unrealized gains and losses on approaches its maturity date, unless there is a payment default on the exposure.

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Management also calculates portfolio and case reserve expenses on our credit derivative contracts in t
insurance contracts. Prior to the First Quarter 2008, incurred losses on credit derivatives were apportioned
credit derivatives and included in loss and loss adjustment expenses. As a result of reclassifying our accou
commencing with the First Quarter 2008, we no longer make this apportionment in our financial statement
quality of our credit derivative contracts. The incurred (losses) gains on credit derivatives were $(43.7) mil
million loss after-tax) and $6.3 million ($4.8 million after-tax) for the years ended December 31, 2008, 200
with 2007 is primarily due to an increase in portfolio reserves as a result of downgrades within our U.S. R

Other Income

The years ended December 31, 2008 and 2007 included a fair value gain of $42.7 million and $8.3 mi
Corp.'s committed capital securities. The increase was due to the widening of the Company's credit spread
ended December 31, 2006, as the fair value of CCS securities was $0 as of December 31, 2006 and Decem

Loss and Loss Adjustment Expenses (Recoveries)

Loss and Loss Adjustment Expenses (Recoveries)
Financial guaranty direct
Financial guaranty reinsurance
Mortgage guaranty
Total financial guaranty loss and loss adjustment expenses (recoveries)
Other
Total loss and loss adjustment expenses (recoveries)

Loss and loss adjustment expenses for the years ended December 31, 2008, 2007 and 2006 were $265
and LAE for 2008 were $265.8 million. Results for the financial guaranty direct segment for 2008 include
to HELOC and Closed-End Second exposures, respectively, driven by credit deterioration, primarily relate
reinsurance segment included losses incurred of $48.5 million related primarily to our assumed HELOC e

In 2007, loss and LAE for the financial guaranty direct segment included a $2.4 million case reserve i
primarily attributable to downgrades of transactions in our CMC list related to the subprime mortgage mar
exposures. Portfolio reserves also increased as a result of growth in new business and revised rating agenc
financial guaranty reinsurance segment had a $(24.1) million loss benefit principally due to the restructuri
recoveries and increases in salvage reserves for aircraft-related transactions.

In 2006, the financial guaranty direct segment had loss and loss adjustment expenses of $2.6 million
increase in net earned premiums and downgrades of a sub-prime mortgage transaction, partially offset by a

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net recovery of $(1.6) million relating to the settlement of a sub-prime mortgage transaction. The financial
expenses of $13.1 million due to $6.8 million of net case loss and LAE reserve additions, primarily related
transaction as well as other asset backed securities and a $1.6 million write-down of expected litigation rec
established in 1998 from a bankruptcy estate. In addition, the Company increased portfolio reserves $6.2 m
infrastructure transaction and management updating its rating agency default statistics, as part of our norm
of various credits.

Profit Commission Expense

Profit commissions, which are primarily related to our mortgage guaranty segment, allow the ceding c
contract due to lower than expected losses. Expected or favorable loss development generates profit comm
development. Portfolio reserves are not a component of these profit commission calculations. For the years
commissions were $1.3 million, $6.5 million and $9.5 million, respectively. The decreases in profit commi
run-off of mortgage guaranty experience rated quota share treaties, which have a large profit commission c
increases in losses incurred for certain transactions ceded to us and subject to profit commission.

Acquisition Costs

Acquisition costs primarily consist of ceding commissions, brokerage fees and operating expenses tha
costs that vary with and are directly related to the acquisition of new business are deferred and amortized i
December 31, 2008, 2007 and 2006, acquisition costs incurred were $61.2 million, $43.2 million and $45.
changes in net earned premium from non-derivative transactions. The increase of $18.0 million in 2008 co
refunded earned premium, and the related deferred ceding commission which was amortized. The decrease
related to a greater portion of earned premium coming from our financial guaranty direct business, which h
incurred in our other segment during 2008, 2007 and 2006.

Operating Expenses

For the years ended December 31, 2008, 2007 and 2006, operating expenses were $83.5 million, $79.
2008 compared with 2007, and 2007 compared with 2006, were mainly due to higher salaries and related e
increases. Also contributing to the increases was the amortization of restricted stock and stock option awar
programs each year and the related amortization as well as the accelerated vesting of these awards for retir

Interest Expense

Interest expense was $23.3 million, $23.5 million and $13.8 million for the years ended December 31
amounts were mainly comprised of $13.4 million of interest expense, net of amortization of our cash flow
("Senior Notes") in May 2004 and $9.8 million of interest expense related to the issuance of our 6.40% Se
"Debentures") in

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December 2006. The coupon on the Senior Notes is 7.0%, however, the effective rate is approximately 6.4
the Company in March 2004, the term of which matches that of the Senior Notes. In addition, the 2007 am
The 2006 amount included $13.4 million of interest expense, net of amortization of our cash flow hedge, o
our Debentures.

Other Expense

For the years ended December 31, 2008, 2007 and 2006, other expenses were $5.7 million, $2.6 milli
reflect put option premiums associated with Assured Guaranty Corp.'s $200.0 million committed capital se
the increase in annualized rates from One-Month LIBOR plus 110 basis points to One-Month LIBOR plus
April 2008.

Income Tax

For the years ended December 31, 2008, 2007 and 2006, income tax expense (benefit) was $43.4 mill
rate was 38.7%, 34.5% and 15.9% for the years ended December 31, 2008, 2007 and 2006, respectively. O
recognized by each of our operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corpora
marginal corporate tax rate of 30%, and no taxes for our Bermuda holding company and subsidiaries. Acc
based on the distribution of taxable income across these jurisdictions. 2008 included $38.0 million of pre-t
which was associated with subsidiaries taxed in the U.S., compared with a $(670.4) million pre-tax unreali
2007, the IRS completed its audit of Assured Guaranty Overseas US Holdings Inc. and subsidiaries for the
reduction of our FIN 48 tax liability. 2007 also included a $4.1 million reduction of the Company's FIN 48
FIN 48, due to final regulations on the treatment of a tax uncertainty regarding the use of consolidated loss
to the $13.5 million of loss recoveries from third party litigation settlements related to the equity layer cred

Segment Results of Operations

Our financial results include four principal business segments: financial guaranty direct, financial gua
uses underwriting gains and losses as the primary measure of each segment's financial performance. Under
realized gains and other settlements on credit derivatives less the sum of loss and loss adjustment expenses
commission expense, acquisition costs and other operating expenses that are directly related to the operatio
certain revenue and expense items, such as net investment income, realized investment gains and losses, u
reserves allocation , other income, and interest and other expenses, that are not directly related to the under
included in net income.

Loss and loss adjustment expense ratio, which is a non-GAAP financial measure, is defined as loss an
net estimate of credit derivative incurred case and portfolio loss and loss adjustment expense reserves, whi
derivatives, plus net credit derivative losses (recoveries), which is included in realized gains and other settl
plus net credit

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derivative premiums received and receivable, which is included in realized gains and other settlements on c
sum of ceding commissions expense (income), profit commission expense, acquisition costs and operating
premiums received and receivable, which is included in realized gains and other settlements on credit deriv
measure, is the sum of the loss and loss adjustment expense ratio and the expense ratio.

Financial Guaranty Direct Segment

The financial guaranty direct segment consists of our primary financial guaranty insurance business a
insurance provides an unconditional and irrevocable guaranty that protects the holder of a financial obligat
Financial guaranty insurance may be issued to the holders of the insured obligations at the time of issuance
market to holders of public bonds and structured securities. As an alternative to traditional financial guaran
issuer can also be provided through a credit derivative, such as a credit default swap. Under a credit defaul
the buyer of protection upon the occurrence of one or more specified credit events with respect to a referen
derivatives typically provide protection to a buyer rather than credit enhancement of an issue as in tradition

The table below summarizes the financial results of our financial guaranty direct segment for the peri

	Ye
	2008
Gross written premiums	$ 484
Net written premiums	474
Net earned premiums	90
Realized gains and other settlements on credit derivatives:	
Net credit derivative premiums received and receivable	113
Net credit derivative losses recovered and recoverable (paid and payable)	
Ceding commissions income (expense), net	(
Total realized gains and other settlements on credit derivatives	113
Loss and loss adjustment expenses (recoveries)	196
Incurred losses (gains) on credit derivatives	38
Total loss and loss adjustment expenses (recoveries)	235
Profit commission expense	
Acquisition costs	14
Operating expenses	61
Underwriting (loss) gain	$(106
Loss and loss adjustment expense ratio	115
Expense ratio	36
Combined ratio	152

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Gross Written Premiums	Year En 2008
	($
Public finance	$425.3
Structured finance	59.4
Total	$484.7

The financial guaranty direct segment contributed $484.7 million, $167.1 million and $124.8 million
December 31, 2008, 2007 and 2006, respectively. Gross written premiums in our financial guaranty direct
2007 primarily due to a $371.8 million increase in U.S. generated business, of which $355.8 million was fr
increase our book of business. Partially offsetting this increase was a reduction of our international infrastr
$71.3 million for 2007, as the prior included a few large infrastructure transactions. Gross written premium
$42.3 million in 2007 from 2006 primarily due to a $42.7 million increase in U.S. generated business, main
finance business, as we continue to execute our direct business strategy. Our international business was bas
premiums in 2007 compared with $71.6 million in 2006.

Generally, gross and net written premiums from the public finance market are received upfront, while
been received on an installment basis. The contribution of upfront premiums to gross written premiums we
$425.0 million, $121.1 million and $98.9 million in 2008, 2007 and 2006, respectively. In 2008, 2007 and
20.8% of gross written premiums in this segment, or $59.7 million, $46.0 million and $25.9 million, respe

Net Written Premiums	Year E 2008
	(
Public finance	$418.2
Structured finance	56.5
Total	$474.7

For the years ended December 31, 2008, 2007 and 2006, net written premiums were $474.7 million, $
in net written premiums are consistent with the variances in gross written premiums as we typically retain

Net Earned Premiums	Year Ended 2008	2
	($ in	
Public finance	$34.6	$
Structured finance	55.4	
Total	$90.0	$
Included in public finance direct net earned premiums are refundings of:	$ 1.3	$

Net earned premiums for the years ended December 31, 2008, 2007 and 2006, were $90.0 million, $5
net earned premiums reflects our increased market penetration, which has resulted in growth of our in-forc
$37.2 million compared with 2007 for the same reason. Net earned premiums increased $25.0 million in 20
book of business. Included in 2008 and 2007 financial guaranty direct net earned premiums were $1.3 mill
refundings, which reflect the unscheduled pre-payment or refundings of underlying municipal bonds. Thes

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interest rates. There were no unscheduled refundings in 2006. We evaluate our net earned premiums both i

Realized gains and other settlements on credit derivatives

Net credit derivative premiums received and receivable
Net credit derivative losses recovered and recoverable (paid and payable)
Ceding commissions received/receivable (paid/payable), net
Total realized gains and other settlements on credit derivatives

Realized gains and other settlements on credit derivatives, were $113.8 million, $72.7 million and $6(2006, respectively, and were comprised only of net credit derivative premiums received and receivable, wl CDS contracts. The increases in both 2008 and 2007 are attributable to the increases in our direct business 44% increase in par outstanding during the years ended December 31, 2008 and 2007, respectively, as wel have any losses paid or payable under these contracts in either 2008, 2007 or 2006.

Loss and loss adjustment expenses were $196.7 million, $29.2 million and $2.6 million for the years e loss and loss adjustment expenses are affected by changes in the mix, size and credit trends in our book of adjustment expenses for prior periods. The loss ratios for the years ended December 31, 2008, 2007 and 20 2008 year included an incurred loss and LAE of $53.9 million mainly attributable to two Closed-End Seco related to our direct HELOC exposures driven by credit deterioration, primarily related to increases in deli 2008 included an incurred loss of $17.2 million due to establishment of a case reserve for a real estate relat reserve increase and a $30.2 million portfolio reserve increase, primarily attributable to downgrades of tran credit exposures, as well as growth in new business and management's annual updating of rating agency de

Loss and LAE of $2.6 million in 2006 were due to an increase of $4.5 million associated with the incr downgrades to sub-prime mortgage transactions, partially offset by a case loss reserve net recovery of $(1. transaction.

Incurred losses (gains) on credit derivatives were $38.4 million in 2008 compared with $3.6 million in portfolio reserves as a result of downgrades within our U.S. RMBS credit derivative book of business.

For the years ended December 31, 2008, 2007 and 2006, acquisition costs incurred were $14.0 million in acquisition costs incurred over the periods are directly related to changes in net earned premiums from r

Operating expenses for the years ended December 31, 2008, 2007 and 2006 were $61.5 million, $60.5 Company implemented a new operating expense allocation methodology to more closely allocate expenses was based on a comprehensive study which was based on departmental time estimates and headcount. The attributable to increased staff additions and merit increases as well as the increase in the amortization of re awards and other performance retention programs

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each year and the related amortization as well as the accelerated vesting of these awards for retirement elig

Financial Guaranty Reinsurance Segment

In our financial guaranty reinsurance business, we assume all or a portion of risk undertaken by other protection. The financial guaranty reinsurance business consists of public finance and structured finance re written upfront and earned over the life of the policy, and premiums on structured finance are typically wri installment period.

The table below summarizes the financial results of our financial guaranty reinsurance segment for th

	2
Gross written premiums	$
Net written premiums	
Net earned premiums	
Realized gains and other settlements on credit derivatives:	
Net credit derivative premiums received and receivable	
Net credit derivative losses recovered and recoverable	
Ceding commissions (expense) income, net	
Total realized gains and other settlements on credit derivatives	
Loss and loss adjustment expenses (recoveries)	
Incurred losses on credit derivatives	
Total loss and loss adjustment expenses (recoveries)	
Profit commission expense	
Acquisition costs	
Operating expenses	
Underwriting gain	$
Loss and loss adjustment expense ratio	
Expense ratio	
Combined ratio	

	Year E
Gross Written Premiums	**2008**
Public finance	$ 91.3
Structured finance	38.0
Total	$ 129.3

Gross written premiums for our financial guaranty reinsurance segment include upfront premiums on premiums on business primarily underwritten in prior periods. Consequently, this amount is affected by ch structured finance. For the years ended December 31, 2008, 2007 and 2006, 59%, 84% and 68%, respectiv premiums and 41%, 16% and 32%, respectively, were installment premiums.

Gross written premiums for the years ended December 31, 2008, 2007 and 2006 were $129.3 million, decrease of $121.7 million, or 48%, in gross written premiums for 2008, compared with 2007was mainly a 2007 which contributed $143.2 million of written premium. For 2007, gross written premiums increased $ the Ambac portfolio mentioned above.

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

Gross Written Premiums	Year E 2008
	(
Treaty	$ 37.9
Facultative	91.4
Total	$ 129.3

The following table summarizes the Company's reinsurance gross written premiums by significant cli

Gross Written Premiums by Client(1)	Year I 2008
Financial Security Assurance Inc.(1)	$ 94.5
Ambac Assurance Corporation(2)	27.6
Financial Guaranty Insurance Company	21.2
MBIA Insurance Corporation	6.0
XL Capital Assurance Ltd(3).	(20.3

(1) Excludes credit derivative gross written premiums.

(2) In December 2007, the Company's reinsurance subsidiary, AG Re, reinsured approximately $29 billion of net par outstanding from Ambac.

(3) In July 2008, AG Re commuted its $2.1 billion portfolio of business assume returning $14.6 million of unearned premium, net of ceding commissions, ar Company of $1.8 million.

Net Written Premiums	Year E 2008
	(
Public finance	$ 91.1
Structured finance	38.0
Total	$ 129.1

For the years ended December 31, 2008, 2007 and 2006, net written premiums were $129.1 million, $ in all periods are consistent with the changes in gross written premiums because, to date, we have not retro

Net Earned Premiums	
Public finance	
Structured finance	
Total	
Included in public finance reinsurance net earned premiums are refundings of:	

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For the years ended December 31, 2008, 2007 and 2006, net earned premiums were $165.9 million, $
premiums increased $77.0 million, or 87%, in 2008 compared with 2007 and decreased $5.5 million, or 6%
traditionally have a longer weighted average life than structured finance transactions. Public finance net ea
unscheduled pre-payment or refundings of underlying municipal bonds. These unscheduled refundings, wh
2008, 2007 and 2006, respectively, are sensitive to market interest rates and other market factors. Excludin
or 42%, in 2008 compared with 2007, due primarily to the portfolio assumed from Ambac in December 20
in 2008. Excluding these refundings, our financial guaranty reinsurance segment net earned premiums dec
to the non-renewal of certain treaties in 2004 and 2006. Net earned premiums, excluding refundings, decre
to the non-renewal of certain treaties and change in mix of business. We evaluate our net earned premiums

Realized gains and other settlements on credit derivatives
Net credit derivative premiums received and receivable
Net credit derivative losses recovered and recoverable or payable
Ceding commissions (paid/payable) received/receivable, net
Total realized gains and other settlements on credit derivatives

Realized gains and other settlements on credit derivatives, were $3.4 million, $0 million and $0 millio
respectively. Net credit derivative premiums received and receivable, which represents premium income re
commission expense, increased based on amounts reported to us by our cedants. We did not have any losse
or 2006.

Loss and LAE were $68.4 million, $(24.1) million and $13.1 million for the years ended December 3
for the years ended December 31, 2008, 2007 and 2006 were 43.2%, (27.1)% and 13.9%, respectively. Los
related to our assumed HELOC exposures. Additionally, 2008 loss and LAE included $14.6 million of inc
2007, the financial guaranty reinsurance segment had $(12.8) million of incurred losses due to the restruct
losses incurred of $(17.7) million related to loss recoveries and increased salvage reserves for aircraft-relat
increases to case and portfolio reserves of $2.5 million and $2.4 million, respectively, for HELOC exposur
management's annual updating of its rating agency default statistics. The 2006 loss and loss adjustment exp
additions, primarily related to the rating downgrades of a U.S. public infrastructure transaction as well as c
expected litigation recoveries, reported from a cedant. These recoveries were established in 1998 from a ba
reserves $6.2 million primarily due to the ratings downgrade of a European infrastructure transaction and r
part of our normal portfolio reserve process and due to the rating downgrade of various credits.

Profit commission expense was $1.0 million, $2.7 million and $2.7 million for the years ended Decem
treaties have a profit commission component, however the changes in profit commission expense correspo

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premium from a treaty which has a profit commission component. The decrease in 2008, compared with 2
companies, which reflects increases in reported loss and LAE for transactions subject to profit commission

For the years ended December 31, 2008, 2007 and 2006, acquisition costs incurred were $46.6 millio
in acquisition costs incurred over the periods are directly related to the changes in net earned premiums fro
negotiated ceding commission rates for transactions executed in recent years.

Operating expenses for the years ended December 31, 2008, 2007 and 2006, were $19.7 million, $17.
Company implemented a new operating expense allocation methodology to more closely allocate expense
was based on a comprehensive study which was based on departmental time estimates and headcount. The
attributable to increased staff additions and merit increases as well as the increase in the amortization of re
awards and other performance retention programs each year and the related amortization as well as the acc
employees as required by FAS 123R.

Mortgage Guaranty Segment

Mortgage guaranty insurance provides protection to mortgage lending institutions against the default
advance, had a loan-to-value ratio in excess of a specified ratio. We primarily function as a reinsurer in thi
by primary mortgage insurers.

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

	Year I
	2008
Gross written premiums	$ 0.7
Net written premiums	0.7
Net earned premiums	5.7
Loss and loss adjustment expenses (recoveries)	2.0
Profit commission expense	0.4
Acquisition costs	0.5
Operating expenses	2.2
Underwriting gain	$ 0.6
Loss and loss adjustment expense ratio	35.1%
Expense ratio	53.9%
Combined ratio	89.0%

Gross written premiums for the years ended December 31, 2008, 2007 and 2006 were $0.7 million, $
gross written premiums for 2007 compared with 2006 was primarily related to the run-off of our quota sha
latter part of 2007. The decrease in gross written premiums for 2007 compared with 2006 was primarily re
as commutations executed in the latter part of 2006.

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Net written premiums for the years ended December 31, 2008, 2007 and 2006 were $0.7 million, $2.7
with gross written premiums, as we do not cede a significant amount of our mortgage guaranty business.

For the years ended December 31, 2008, 2007 and 2006, net earned premiums were $5.7 million, $17
earned premiums for both periods reflects the run-off of our quota share treaty business as well as commut

Loss and loss adjustment expenses were $2.0 million, $0.6 million and $(4.4) million for the years en
loss and loss adjustment expense ratios for the years ended December 31, 2008, 2007 and 2006 were 35.1%
included $2.3 million of LAE related to one transaction in arbitration (refer to Note 16 "Commitments and
Item 8 of this Form 10-K for further discussion). The loss and loss adjustment expense for 2007 was due to
annual updating of rating agency default statistics used in its portfolio reserving process. The 2006 result w
IBNR reserves related to the settlement of the 1997 quota share treaty year. This release however, was offs
discussed below.

Profit commission expense for the years ended December 31, 2008, 2007 and 2006 was $0.4 million,
profit commission expense for 2008 compared with 2007 is primarily due to the run-off of mortgage guara
profit commission component. The 2007 profit commission expense is mainly related to the commutation o
2006 year included $4.1 million of profit commission expense due to the settlement of the 1997 quota shar
component of these profit commission calculations.

Acquisition costs incurred for the years ended December 31, 2008, 2007 and 2006 were $0.5 million,
acquisition costs incurred are directly related to the changes in net earned premiums.

Operating expenses for the years ended December 31, 2008, 2007 and 2006 were $2.2 million, $2.0 m
Company implemented a new operating expense allocation methodology to more closely allocate expenses
was based on a comprehensive study which was based on departmental time estimates and headcount. The
attributable to increased salaries due to increased staff additions and merit increases as well as the increase
awards, due to new stock awards and other performance retention programs each year and the related amor
retirement eligible employees as required by FAS 123R.

Other Segment

The other segment represents lines of businesses that we exited or sold as part of our IPO.

The other segment had no earned premiums during 2008, 2007 or 2006. However, due to loss recover
$1.9 million, $1.3 million and $13.5 million for the years ended December 31, 2008, 2007 and 2006, respe
recoveries of $0.4 million, $1.3 million and $13.5 million for the years ended December 31, 2008, 2007 an

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Liquidity and Capital Resources

Our liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond t ability of our operating subsidiaries to pay dividends or make other payments to us, (2) external financings liquidity requirements include the payment of our operating expenses, interest on our debt, and dividends o periodic capital investments in our operating subsidiaries. In the ordinary course of our business, we evalu holding company expenses, debt-related expenses and our dividend policy, as well as rating agency consid receive from our subsidiaries and the income we expect to receive from our invested assets, management b needs over the next twelve months, including the ability to pay dividends on our common shares. Total cas was $16.0 million, or $0.18 per common share, $11.0 million, or $0.16 per common share, and $10.5 milli twelve months, the ability of our operating subsidiaries to declare and pay dividends may be influenced by and rating agencies regulations and general economic conditions. Consequently, although management bel our debt service and other obligations over the long term, it remains possible that we may be required to se operating expenses, debt service obligations or pay dividends on our common shares. These external sourc available, the costs of such financing may be higher than our current levels.

We anticipate that a major source of our liquidity, for the next twelve months and for the longer term, dividends. Certain of our operating subsidiaries are subject to restrictions on their ability to pay dividends. pay dividends in 2009 with notice to, but without the prior approval of, the Maryland Insurance Commissi company to a Bermuda holding company presently are subject to a 30% withholding tax. The amount avai contributed surplus in 2009 in compliance with Bermuda law is $1,125.0 million. However, any distributic total statutory capital, as set out in its previous year's financial statements, would require the prior approva

Liquidity at our operating subsidiaries is used to pay operating expenses, claims, payment obligations postings, reinsurance premiums and dividends to AGUS for debt service and dividends to us, as well as, w subsidiaries. In addition, certain of our operating companies may be required to post additional collateral i transactions. Management believes that these subsidiaries' operating needs generally can be met from oper investment income from their respective investment portfolios.

Net cash flows provided by operating activities were $427.0 million, $385.9 million and $261.6 milli 2006, respectively. The increase in cash flows provided by operating activities in 2008, compared with 200 received in our financial guaranty direct segment due to growth in our U.S. public finance business.

The increase in cash flows provided by operating activities in 2007 was due to significant amount of u direct and financial guaranty reinsurance segments, partially offset by payments for income taxes.

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2006 operating cash flows were primarily due to upfront premium received in both our financial guar during 2006 and $13.5 million of loss recoveries from third party litigation settlements from business, whi

Net cash flows used in investing activities were $(649.6) million, $(664.4) million and $(228.5) millio 2006, respectively. These investing activities were primarily net purchases of fixed maturity investment se was due to purchases of fixed maturity securities with the cash generated from positive cash flows from op offerings in April 2008 and December 2007. The increase in 2007 was due to purchases of fixed maturity s public offering, as discussed below.

Net cash flows provided by (used in) financing activities were $229.3 million, $281.4 million and $(3 and 2006, respectively.

On December 21, 2007, the Company completed the sale of 12,483,960 of its common shares at a pri approximately $303.8 million. The Company has contributed the net proceeds of the offering to its reinsur provide capital support in the form of a reinsurance portfolio transaction with Ambac Assurance Corp. for support the growth of AGC, the Company's direct financial guaranty subsidiary, by providing reinsurance.

On April 8, 2008, investment funds managed by WL Ross & Co. LLC ("WL Ross") purchased 10,651 $23.47 per share, resulting in proceeds to the Company of $250.0 million. The Company contributed $150 addition, the Company contributed $100.0 million of these proceeds to its subsidiary, Assured Guaranty U to its subsidiary, AGC. The commitment to purchase these shares was previously announced on February 2 April 8, 2009 to purchase up to $750.0 million of the Company's common equity, at the Company's option agreement with the Company dated February 28, 2008. In accordance with the investment agreement, the C drawdowns, subject to a minimum drawdown of $50 million, provided that the purchase price per commor less than $19.37, the price per common share for the initial shares. The purchase price per common share f average price of a common share on the NYSE for the 15 NYSE trading days prior to the applicable drawd this filing, the purchase price per common share is outside of this range and therefore the Company may no additional shares.

During 2008 we paid $16.0 million in dividends, $3.6 million, net, under our option and incentive pla with the December 2007 equity offering and issuance of common shares to WL Ross.

In addition, during 2007 we paid $11.0 million in dividends, $9.3 million for share repurchases, $2.0 $0.4 million in debt issue costs related to $150.0 million of Series A Enhanced Junior Subordinated Deben

On May 4, 2006, the Company's Board of Directors approved a share repurchase program for 1.0 mill management's discretion depending on market conditions. In August 2007 the Company completed this sh

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2007 and 2006, we paid $3.7 million and $21.1 million to repurchase 0.2 million shares and 0.8 million sh

On November 8, 2007, the Company's Board of Directors approved a new share repurchase program take place at management's discretion depending on market conditions. During 2007 we paid $5.6 million

During 2006 we paid $21.1 million for share repurchases, $10.5 million in dividends and $2.1 million the IPO, and related interest to subsidiaries of ACE.

In December 2006, Assured Guaranty US Holdings Inc. ("AGUS"), a subsidiary of the Company, iss Debentures (the "Debentures") due in 2066. The Debentures pay a fixed 6.40% rate of interest until Decem LIBOR plus a margin of 2.38% with quarterly resets thereafter. Assured Guaranty US Holdings Inc. used t common shares from ACE Bermuda.

The following table summarizes our contractual obligations as of December 31, 2008:

		As of
	Total	Less Than 1 Year
		(
Senior Notes(1)	$554.3	$ 14.0
Series A Enhanced Junior Subordinated Debentures(1)	226.5	9.6
Operating lease obligations(2)	31.9	7.1
Reserves for losses and loss adjustment expenses(3)	156.9	224.0
Total(4)	$969.6	$ 254.7

(1) Principal and interest. See also Note 18 "Long-Term Debt" to the consolidated financial statemen

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

(3) We have estimated the timing of these payments based on our historical experience and our expe these payments may vary significantly from the amounts shown above, especially for our portfol reserves of $48.7 million and mortgage reserves of $1.5 million. These amounts are not discount

(4) Totals may not add due to rounding.

Off-Balance Sheet Arrangements

In June 2008, the Company's subsidiary, Assured Guaranty Corp., entered into a new five-year lease annual payments of $5.3 million for the first twelve month period and $5.7 million for subsequent twelve to escalation in building operating costs and real estate taxes.

As of December 31, 2008 and 2007, the Company did not have any significant off-balance-sheet arra consolidated financial statements.

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Credit Facilities

2006 Credit Facility

On November 6, 2006, Assured Guaranty Ltd. and certain of its subsidiaries entered into a $300.0 mil
credit facility") with a syndicate of banks, for which ABN AMRO Incorporated and Bank of America Secu
facility, each of AGC, Assured Guaranty (UK) Ltd. ("AG (UK)"), AG Re, AGRO and Assured Guaranty L
borrower or to request that letters of credit be issued for the account of such borrower.

Of the $300.0 million available to be borrowed, no more than $100.0 million may be borrowed by As
aggregate, and no more than $20.0 million may be borrowed by AG (UK). The stated amount of all outstar
in respect of all letters of credit cannot, in the aggregate, exceed $100.0 million.

The 2006 credit facility also provides that Assured Guaranty Ltd. may request that the commitment o
maximum aggregate amount of $400.0 million. Any such incremental commitment increase is subject to c
least $25.0 million.

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

At the closing of the 2006 credit facility, (i) AGC guaranteed the obligations of AG (UK) under such
of AG Re and AGRO under such facility and agreed that, if the Company Consolidated Assets (as defined
were to fall below $1.2 billion, it would, within 15 days, guarantee the obligations of AGC and AG (UK) u
Holdings Inc. guaranteed the obligations of Assured Guaranty Ltd., AG Re and AGRO under such facility
well as Assured Guaranty Ltd.

The 2006 credit facility's financial covenants require that Assured Guaranty Ltd. (a) maintain a minim
Consolidated Net Worth of Assured Guaranty Ltd. as of the most recent fiscal quarter of Assured Guaranty
maximum debt-to-capital ratio of 30%. In addition, the 2006 credit facility requires that AGC maintain qua
as of the fiscal quarter prior to November 6, 2006. Furthermore, the 2006 credit facility contains restrictio
among other things, in respect of their ability to incur debt, permit liens, become liable in respect of guarar
distributions, dissolve or become party to a merger, consolidation or acquisition, dispose of assets or enter
subject to certain minimum thresholds and exceptions. The 2006 credit facility has customary events of de
grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or
control and cross-default to other debt agreements. A default by one borrower will give rise to a right of th
then outstanding. As of December 31, 2008 and 2007, Assured Guaranty was in compliance with all of tho

As of December 31, 2008 and 2007, no amounts were outstanding under this facility nor have there be

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The 2006 credit facility replaced a $300.0 million three-year credit facility. Letters of credit totaling a
December 31, 2008 related to the Real Estate Lease agreement discussed above. No letters of credit were o

Non-Recourse Credit Facilities

AG Re Credit Facility

On July 31, 2007 AG Re entered into a non-recourse credit facility ("AG Re Credit Facility") with a s
satisfy certain reinsurance agreements and obligations. The AG Re Credit Facility expires in July 2014.

The AG Re Credit Facility does not contain any financial covenants. The AG Re Credit Facility has c
materiality thresholds and grace periods) payment default, failure to comply with covenants, material inacc
insolvency proceedings, change of control and cross-default to other debt agreements. If any such event of
potential outstanding borrowings in an accelerated manner.

AG Re's obligations to make payments of principal and interest on loans under the AG Re Credit Faci
limited recourse obligations of AG Re and are payable solely from the collateral securing the AG Re Credi
obligations in a designated portfolio, premiums with respect to defaulted insured obligations in that portfol

As of December 31, 2008 and 2007, no amounts were outstanding under this facility nor have there be

Series A Enhanced Junior Subordinated Debentures

On December 20, 2006, AGUS issued $150.0 million of Series A Enhanced Junior Subordinated Deb
$149.7 million. The Debentures are guaranteed on a junior subordinated basis by Assured Guaranty Ltd. T
5,692,599 of Assured Guaranty Ltd.'s common shares from ACE Bermuda Insurance Ltd., a subsidiary of
December 15, 2016, and thereafter pay a floating rate of interest, reset quarterly, at a rate equal to 3 month
one or more times to defer payment of interest for one or more consecutive periods for up to ten years. Any
AGUS may not defer interest past the maturity date.

On any date on which accrued interest through the most recent interest payment date has not been pai
otherwise, AGUS and Assured Guaranty Ltd. will not, and will not permit any subsidiary to, declare or pay
payments of interest, principal or premium, or any guarantee payments on, or redeem, repurchase, purchas
or Assured Guaranty Ltd.'s capital stock, debt securities that rank equal or junior to the Debentures or the s
junior to the Debentures or the subordinated guarantees, other than pro rata payments on debt securities tha
guarantees with certain exceptions.

If AGUS has optionally deferred interest payments otherwise due on the Debentures, then following t
a deferral period or (ii) a payment, during a deferral period, of current interest on the Debentures, AGUS a
reasonable efforts to sell qualifying warrants and non-cumulative perpetual preferred stock. If such efforts

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deferred interest out of the net proceeds from the sale of such securities. AGUS cannot pay optionally defe
the sale of such securities. AGUS's and Assured Guaranty Ltd.'s obligation to make commercially reasonal
perpetual preferred stock to satisfy AGUS's obligation to pay interest is subject to market disruption event
default with respect to the Debentures has occurred and is continuing.

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

Subject to the Replacement Capital Covenant, the Debentures may be redeemed in whole or in part, s
after December 15, 2016, at the cash redemption price of 100% of the principal amount of the Debentures
with any compounded interest, on such Debentures to the date of redemption (the "par redemption amount
2016, in whole but not in part, at a price equal to the greater of (i) the par redemption amount and (ii) the a

The junior subordinated indenture governing the Debentures provides that only the following constitu
right to accelerate the amounts due under the Debentures: (i) default for 30 calendar days in the payment o
due and payable (whether or not such payment is prohibited by the subordination provisions); however, a
properly deferred the interest in connection with an optional deferral period, (ii) any non-payment of inter
continues for 10 consecutive years without all accrued and unpaid interest (including compounded interest
continues for 30 days and Assured Guaranty Ltd. fails to make guarantee payments with respect thereto, (i
any, on the Debentures when due, or (iv) certain events of bankruptcy, insolvency, or receivership, whethe
event of default under the junior subordinated indenture for purposes of declaring an acceleration of paym

Committed Capital Securities

On April 8, 2005, AGC entered into separate agreements (the "Put Agreements") with each of Wood
Woodbourne Capital Trust III and Woodbourne Capital Trust IV (each, a "Custodial Trust") pursuant to w
Trusts to purchase up to $50,000,000 of perpetual preferred stock of AGC (the "AGC Preferred Stock").

Structure

Each of the Custodial Trusts is a newly organized Delaware statutory trust formed for the purpose of
"CCS Securities") representing undivided beneficial interests in the assets of such Custodial Trust; (ii) inv
any redemption in full of AGC Preferred Stock in a portfolio of high-grade

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commercial paper and (in limited cases) U.S. Treasury Securities (the "Eligible Assets"), (iii) entering into agreements.

Initially, all of the CCS Securities were issued to a special purpose pass-through trust (the "Pass-Thro 2008 and the committed capital securities were distributed to the holders of the Pass-Through Trust's secur are consolidated in Assured Guaranty's financial statements.

Income distributions on the Pass-Through Trust Securities and CCS Securities were equal to an annua periods ending on or prior to April 8, 2008. Following dissolution of the Pass-Through Trust, distributions auction process. On April 7, 2008 this auction process failed, thereby increasing the annualized rate on the Distributions on the AGC Preferred Stock will be determined pursuant to the same process or, if the Comp fixed rate equal to One-Month LIBOR plus 250 basis points (based on the then current 30-year swap rate).

Put Agreement

Pursuant to the Put Agreement, AGC will pay a monthly put premium to each Custodial Trust except been put to a Custodial Trust is held by that Custodial Trust or (2) upon termination of the Put Agreement. distribution rate on the CCS Securities for the respective distribution period less the excess of (i) the Custo distribution period (including any fees and expenses of the Pass-Through Trust) (expressed as an annual ra distribution period (expressed as an annual rate), (B) the aggregate face amount of the CCS Securities of th calculated, and (C) a fraction, the numerator of which will be the actual number of days in such distributio addition, and as a condition to exercising the put option under a Put Agreement, AGC is required to enter i with the respective Custodial Trust pursuant to which AGC agrees it will pay the fees and expenses of the Pass-Through Trust) during the period when such Custodial Trust holds AGC Preferred Stock.

Upon exercise of the put option granted to AGC pursuant to the Put Agreement, a Custodial Trust wil AGC Preferred Stock and will hold the AGC Preferred Stock until the earlier of (i) the redemption of such the Custodial Trust.

Each Put Agreement has no scheduled termination date or maturity, however, it will terminate if (1) A Agreement, and such failure continues for five business days, (2) AGC elects to have the AGC Preferred S Event"), (3) AGC fails to pay (i) dividends on the AGC Preferred Stock, or (ii) the fees and expenses of th failure continues for five business days, (4) AGC fails to pay the redemption price of the AGC Preferred S face amount of a Custodial Trust's CCS Securities is less than $20,000,000, (6) AGC elects to terminate th Custodial Trust is entered. If, as a result of AGC's failure to pay the put premium, the Custodial Trust is lic which will be distributed to the holders of the Pass-Through Trust Securities. The termination payment wil invested in Eligible Assets

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calculated from the date of the failure to pay the put premium through the end of the applicable period.

As of December 31, 2008 and 2007, the put option had not been exercised.

AGC Preferred Stock

AGC Preferred Stock under the Put Agreement will be issued in one or more series, with each series i
aggregate face amount of a Custodial Trust's outstanding CCS Securities, net of fees and expenses, upon e
Preferred Stock will be perpetual.

For each distribution period, holders of the outstanding AGC Preferred Stock of any series, in prefere
shares ranking junior to the AGC Preferred Stock, will be entitled to receive out of any funds legally avail
Directors of AGC or a duly authorized committee thereof, cash dividends at a rate per share equal to the di
respective distribution period. Prior to a Fixed Rate Distribution Event, the dividend rate on the AGC Pref
Securities. The Custodial Trust's expenses (including any expenses of the Pass-Through Trust) for the peri
Trust Expense Reimbursement Agreement.

Upon a Fixed Rate Distribution Event, the distribution rate on the AGC Preferred Stock will equal the
"Fixed Rate Distribution Event" will be deemed to have occurred when AGC Preferred Stock is outstandin
dividends at a fixed rate, (2) AGC fails to pay dividends on the AGC Preferred Stock for the related distrib
or (3) AGC fails to pay the fees and expenses of the Custodial Trust for the related distribution period purs
Agreement and such failure continues for five business days.

During the period in which AGC Preferred Stock is held by a Custodial Trust and unless a Fixed Rate
every 49 days. Following a Fixed Rate Distribution Event, dividends will be paid every 90 days.

Following exercise of the put option during any Flexed Rate Period, AGC may redeem the AGC Pref
on any distribution payment date by paying a redemption price to such Custodial Trust in an amount equal
Stock (plus any accrued but unpaid dividends on the AGC Preferred Stock for the then current distribution
Custodial Trust, the Custodial Trust will reinvest the redemption proceeds in Eligible Assets and, in accor
to the Custodial Trust. If the AGC Preferred Stock was distributed to holders of CCS Securities during any
Preferred Stock until the end of such period.

Following exercise of the put option AGC Preferred Stock held by a Custodial Trust in whole or in p
price to the Custodial Trust in an amount equal to the liquidation preference amount of the AGC Preferred
on such AGC Preferred Stock for the then current distribution period). If AGC partially redeems the AGC
proceeds will be distributed pro rata to the holders of the CCS Securities (and a corresponding reduction i
AGC must redeem all of the AGC Preferred Stock if after giving effect to a partial redemption, the aggreg
held by such Custodial Trust immediately following such

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redemption would be less than $20,000,000. If a Fixed Rate Distribution Event occurs, AGC may not rede
the date of such Fixed Rate Distribution Event.

Investment Portfolio

Our investment portfolio consisted of $3,154.1 million of fixed maturity securities, $477.2 million of
December 31, 2008, compared with $2,587.0 million of fixed maturity securities, $552.9 million of short-t
December 31, 2007. Our fixed maturity securities are designated as available-for-sale in accordance with F
Equity Securities" ("FAS 115"). Fixed maturity securities are reported at their fair value in accordance wit
accumulated other comprehensive income. If we believe the decline in fair value is "other than temporary,"
record a realized loss in our statement of operations.

The following table summarizes our investment portfolio as of December 31, 2008:

	Amortized Cost	Gros Unreal Gai
U.S. government and agencies	$ 426.6	$
Obligations of state and political subdivisions	1,235.9	
Corporate securities	274.2	
Mortgage-backed securities	1,081.9	
Asset-backed securities	80.7	
Foreign government securities	50.3	
Preferred stock	12.6	
Total fixed maturity securities	3,162.3	1
Short-term investments	477.2	
Total investments(1)	$ 3,639.5	$ 1

The following table summarizes our investment portfolio as of December 31, 2007:

	Amortized Cost	Gros Unreal Gai
U.S. government and agencies	$ 297.4	$
Obligations of state and political subdivisions	1,043.0	
Corporate securities	179.4	
Mortgage-backed securities	859.7	
Asset-backed securities	68.1	
Foreign government securities	71.4	
Preferred stock	7.9	
Total fixed maturity securities	2,526.9	
Short-term investments	552.9	
Total investments(1)	$ 3,079.8	$

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

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The amortized cost and estimated fair value of our available-for-sale fixed maturity securities as of De
shown below. Expected maturities will differ from contractual maturities because borrowers may have the
prepayment penalties.

See Note 9 "Investments" to the consolidated financial statements in Item 8 of this Form 10-K for mo
securities as of December 31, 2008 and 2007.

	As	
	2008	
($ in millions)	Amortized Cost	Estin Fair V
Due within one year	$ 29.0	$
Due after one year through five years	357.1	
Due after five years through ten years	564.7	
Due after ten years	1,117.0	1,
Mortgage-backed securities	1,081.9	1,(
Preferred stock	12.6	
Total(1)	$ 3,162.3	$ 3,

(1) Total may not add due to rounding.

Fair value of the fixed maturity securities is based upon market prices provided by either independent
reference to broker or underwriter bid indications. Our investment portfolio does not include any non-publ
valuation of investments see " Critical Accounting Estimates."

We review our investment portfolio for possible impairment losses. For additional information, see "

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The following table summarizes the ratings distributions of our investment portfolio as of December 3
the Moody's and S&P classifications.

AAA or equivalent
AA
A
BBB
Below investment grade(1)
Total

(1) Represents $1.0 million, or less than 0.1%, of the investment portfolio at Dec

As of December 31, 2008 and December 31, 2007, our investment portfolio contained three securities
change in the rating distributions reflected above is mainly the result of downgrades of certain financial gu
As of December 31, 2008 and December 31, 2007, the weighted average credit quality of our entire investr

As of December 31, 2008, $641.1 million of the Company's $3,154.1 million of fixed maturity securit
presents the credit rating of these $641.1 million of securities without the third-party guaranty:

Rating
AAA
AA
A
BBB
Not Available
Total(1)

(1) Excludes $4.6 million of fixed maturity securities wrapped by Assured Guar

As of December 31, 2008, the distribution by third-party guarantor of the $641.1 million is presented

Guarantor
MBIA
Ambac
FSA
FGIC
Total(1)

(1) Excludes $4.6 million of fixed maturity securities wrapped by Assured Guar

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As of December 31, 2008 and to date, the Company has had no investments in or asset positions with

Short-term investments include securities with maturity dates equal to or less than one year from the c of money market funds, discounted notes and certain time deposits for foreign cash portfolios. Short-term value of these securities due to the short maturity of these investments.

Under agreements with our cedants and in accordance with statutory requirements, we maintain fixed reinsured companies and for the protection of policyholders, generally in states where we or our subsidiari value of such restricted balances as of December 31, 2008 and 2007 was $1,233.4 million and $936.0 milli

Under certain derivative contracts, the Company is required to post eligible securities as collateral, ge need to post collateral under these transactions is generally based on mark-to-market valuation in excess o Company's pledged securities totaled $157.7 million and $0.4 million as of December 31, 2008 and 2007,

Credit Risk

The recent credit crisis and related turmoil in the global financial system has had and may continue to Lehman Brothers Holdings Inc. filed for protection under Chapter 11 of the United States Bankruptcy Cod District of New York. As of December 31, 2008, we had CDS contracts outstanding with Lehman Brother Holdings Inc., with future installment payments totaling $44.7 million ($38.5 million present value). We h currently reviewing our rights under the CDS contracts.

As of December 31, 2008, the present value of future installments ("PVI") of our CDS contracts with approximately $495.1 million. The largest counterparties are:

Counterparty	
Deutsche Bank AG	$
RBS/ABN AMRO	
Barclays Capital	
Lehman Brothers International	
Others(1)	
Total	$

(1) Each counterparty within the "Other" category represents less than 5% of the

Market Risk

Market risk represents the potential for losses that may result from changes in the value of a financial primary market risks that impact the value of our financial instruments are interest rate risk, basis risk, suc and credit spread risk. Each of these risks and the specific types of financial instruments impacted are desc

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are responsible for monitoring risk limits and applying risk measurement methodologies. The estimation o
conditions is a key element in managing market risk. We use various systems, models and stress test scena
include estimates made by management that use current and historic market information. The valuation res
that actually are realized in the market. See " Critical Accounting Estimates Valuation of Investments."

Financial instruments that may be adversely affected by changes in interest rates consist primarily of
investment portfolio is generation of an optimal level of after-tax investment income while preserving capi
are based on many factors, including our tax position, fluctuation in interest rates, regulatory and rating ag
we have retained BlackRock Financial Management, Inc. to manage our investment portfolio. These invest
portfolio in accordance with investment guidelines approved by our Board of Directors.

Financial instruments that may be adversely affected by changes in credit spreads consist primarily of
We enter into credit derivative contracts which require us to make payments upon the occurrence of certai
(generally a fixed income obligation). The Company's credit derivative exposures are substantially similar
credit protection against payment default, and are generally not subject to collateral calls due to changes in
derivative transactions such that the circumstances giving rise to our obligation to make loss payments is s
only occurs as losses are realized on the underlying reference obligation. Nonetheless, credit derivative tra
Derivatives Association, Inc. ("ISDA") documentation and operate differently from financial guaranty insu
a reference obligation under a credit derivative may be more limited than when we issue a financial guaran
exposure under credit derivatives, like our exposure under financial guaranty policies, has been generally f
unlike financial guaranty insurance policies, a credit derivative may be terminated for a breach of the ISDA
derivative transactions, one such specified event is the failure of AGC to maintain specified financial stren

If a credit derivative is terminated we could be required to make a mark-to-market payment as determ
rating were downgraded to A+, under market conditions at December 31, 2008, if the counterparties exerci
would have been required make payments that the Company estimates to be approximately $261 million. F
"BBB+" and "BB+" it would have been required to make additional payments that the Company estimates

Under a limited number of credit derivative contracts, the Company is required to post eligible securit
securities. The need to post collateral under these transactions is generally based on mark-to-market valuat
thresholds decline if the Company ratings decline. As of December 31, 2008 the Company had pre-IPO tra
collateral posting due to changes in market value. Of this amount, as of December 31, 2008, the Company
(including $134.2 million for AGC) based on the unrealized mark-to-market loss position for transactions
posted as collateral in the future will depend on changes in the market values of these transactions. Additio
contractual

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thresholds would be eliminated and the amount of par that could be subject to collateral posting requireme
December 31, 2008, such a downgrade would have resulted in AGC posting an additional $88.7 million of
required or anticipated for any other transactions.

Unrealized gains and losses on credit derivatives are a function of changes in the estimated fair value
underlying obligations change, the fair value of the related credit derivative changes. Market liquidity coul
such, Assured Guaranty experiences mark-to-market gains or losses. We consider the impact of our own cr
assume through CDS contracts, in determining the fair value of our credit derivatives. We determine our o
Company at each balance sheet date. The quoted price of CDS contracts traded on AGC at December 31, 2
basis points, respectively. The price of CDS traded on the Company generally moves directionally the sam
traded on the Company has an effect of offsetting unrealized losses that result from widening general mark
widen, the value of our CDS decreases. Conversely, as our own credit spread narrows, the value of our unr
spreads generally results in an unrealized gain on credit derivatives for us and a widening of spreads gener

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and oth
determined. In addition, since each transaction has unique collateral and structure terms, the underlying ch
The fair value of credit derivatives also reflects the change in our own credit cost based on the price to pur
December 31, 2008, we incurred net pre-tax unrealized gains on credit derivative contracts of $38.0 millio
associated with the change in AGC's credit spread, which widened substantially from 180 basis points at D
2008. Management believes that the widening of AGC's credit spread is due to the correlation between AG
financial markets. Offsetting the gain attributable to the significant increase in AGC's credit spread were d
attributable to widening spreads in certain markets as a result of the continued deterioration in credit marke
delinquencies or defaults on securities guaranteed by the Company. The higher credit spreads in the fixed i
in the high yield collateralized debt obligation and collateralized loan obligation markets as well as continu
subprime residential mortgage backed securities.

The total notional amount of credit derivative exposure outstanding as of December 31, 2008 and Dec
exposure was $75.1 billion and $71.6 billion, respectively.

We generally hold these credit derivative contracts to maturity. The unrealized gains and losses on cre
its maturity date, unless there is a payment default on the exposure.

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The following table summarizes the estimated change in fair values on the net balance of Assured Gu
parallel shifts in credit spreads at December 31, 2008:

(Dollars in millions)

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax)
December 31, 2008:	
100% widening in spreads	$ (1,538.3)
50% widening in spreads	(1,044.0)
25% widening in spreads	(793.5)
10% widening in spreads	(642.2)
Base Scenario	(539.2)
10% narrowing in spreads	(454.4)
25% narrowing in spreads	(326.7)
50% narrowing in spreads	(118.4)

(1) Includes the effects of spreads on both the underlying asset classes and the C

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

Recent Accounting Pronouncements

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurement" ("FAS 157"). FAS 15
fair value and expands disclosures about fair value measurements. FAS 157 applies to other accounting pr
since the FASB had previously concluded in those accounting pronouncements that fair value is the releva
fair value measurements. FAS 157 is effective for the measurement of financial assets and liabilities in fin
November 15, 2007, and interim periods within those fiscal years. FASB Staff Position ("FSP") No. 157-2
assets and liabilities for fiscal years beginning after November 15, 2008. We adopted FAS 157 for financia
adopt FAS 157 for non-financial assets and liabilities effective January 1, 2009. FAS 157 did not have a m
position.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Li
choose, at specified election dates, to measure many financial assets and financial liabilities (as well as cer
instruments) at fair value (the "fair value option"). The election is made on an instrument-by-instrument ba
instrument, FAS 159 specifies that all subsequent changes in fair value for that instrument shall be reporte
FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007
apply the fair value option to any eligible items on our adoption date.

In April 2007, the FASB Staff issued FASB Staff Position No. FIN 39-1, "Amendment of FASB Inte
companies to offset cash collateral receivables or payables with net derivative positions under certain circu
beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 did not affect the Comp

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In December 2007, the FASB issued FAS No. 141 (revised), "Business Combinations" ("FAS 141R") the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquire the acquiree. FAS 141R also provides guidance for recognizing and measuring the goodwill acquired in th disclose to enable users of the financial statement to evaluate the nature and financial effects of the busines issued for fiscal years beginning after December 15, 2008, and interim statements within those fiscal years prospectively to business combinations whose acquisition date is subsequent to the statement's adoption. T account for its pending acquisition of FSAH. As of December 31, 2008, the Company had paid $2.7 millio FSAH that the Company plans to expense in the first quarter 2009.

In December 2007, the FASB issued FAS No. 160, "Noncontrolling Interests in Consolidated Financi FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary for t financial statements issued for fiscal years beginning after December 15, 2008, and interim statements witl the impact, if any, FAS 160 will have on its consolidated financial statements.

In March 2008, the FASB issued FAS No. 161, "Disclosures About Derivative Instruments and Hedg ("FAS 161"). FAS 161 establishes the disclosure requirements for derivative instruments and for hedging a for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. F results of operations or financial position.

In May 2008, the FASB issued FAS 163. FAS 163 requires that an insurance enterprise recognize a cl there is evidence that credit deterioration has occurred in an insured financial obligation. FAS 163 also cla premium revenue recognition and claim liability measurement, as well as requiring expanded disclosures a The provisions of FAS 163 related to premium revenue recognition and claim liability measurement are ef beginning after December 15, 2008, and all interim periods within those fiscal years. Earlier application of management activity disclosure provisions of FAS 163 were effective for the third quarter of 2008 and are Activities" to the consolidated financial statements in Item 8 of this Form 10-K. FAS 163 will be applied t written by the Company. The cumulative effect of initially applying FAS 163 will be recorded as an adjust of FAS 163 is expected to have a material effect on the Company's financial statements. The Company is i FAS 163. The Company will continue to follow its existing accounting policies in regards to premium reve completes its first quarter 2009 financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, "Participating Securities and the Two-Class Methoc addresses whether instruments granted in share-based payment transactions are participating securities pric allocation in calculating earnings per share ("EPS") under the two-class method described in FAS No. 128 unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents share. The FSP is effective for

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fiscal years beginning after December 15, 2008; earlier application is not permitted. This FSP also requires
The Company does not expect adoption of the FSP to have a material effect on its results of operations or

In October 2008, the FASB issued FASB Staff Position No. 157-3, "Determining the Fair Value of a
Active" ("FSP 157-3"). FSP 157-3 clarified the application of FAS 157, "Fair Value Measurements", in a
issued. It did not have an impact on the Company's current results of operations or financial position.

The FASB adopted FSP FAS 133-1 and FIN 45-4, "Disclosures About Credit Derivatives and Certain
Instruments and Hedging Activities" to address concerns that current derivative disclosure requirements di
these instruments can have on the financial performance and operations of an entity. Companies will be re
activities to enable users to better understand: (1) how and why a company uses derivatives, (2) how it acc
derivatives affect its financial statements. These should include the terms of the derivatives, collateral post
that could be detrimental to earnings or liquidity. Disclosures specific to credit derivatives must be include
other derivative and hedging disclosures must be included in the Company's March 31, 2009 Form 10-Q.
disclosures are in compliance with the items required by FSP 133-1 and FAS 161.

In December 2008, the FASB adopted FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Enti
Interests in Variable Interest Entities" to require public entities to provide, among other things, additional
involvement with variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 was effective when issues. It
operations or financial position.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning quantitative and qualitative disclosures about market risk appears in Part II, I
Condition and Results of Operations" under the headings " Critical Accounting Estimates Valuation of I

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STAT
ASSURED GUARANTY LTD.

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Management's Responsibility for Financial Statements and Internal Co

Financial Statements

The consolidated financial statements of Assured Guaranty Ltd. were prepared by management, who statements have been prepared in conformity with accounting principles generally accepted in the United S informed estimates and judgments of management. Financial information elsewhere in this annual report i

The Board of Directors, operating through its Audit Committee, which is composed entirely of direct provides oversight of the financial reporting process and safeguarding of assets against unauthorized acqu recommends the appointment of an independent registered public accounting firm and submits its recomm

The Audit Committee meets with management, the independent registered public accounting firm an for the Company; approves the overall scope of audit work and related fee arrangements; and reviews audi public accounting firm and the outside firm engaged to perform internal audit functions for the Company r management representatives present, to discuss the results of their audits; the adequacy of the Company's i safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by an independent registered public account unrestricted access to all financial records and related data, including minutes of all meetings of the Board believes that all representations made to our independent registered public accounting firm during their au

Internal Control Over Financial Reporting

The management of Assured Guaranty Ltd. is responsible for establishing and maintaining adequate i financial reporting is a process designed by, or under the supervision of our Chief Executive Officer and C regarding the reliability of financial reporting and the preparation of our consolidated financial statements principles generally accepted in the United States of America.

As of December 31, 2008, management has evaluated the effectiveness of the Company's internal co in "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the concluded that Assured Guaranty Ltd.'s internal control over financial reporting was effective as of Decem

The effectiveness of the Company's internal controls over financial reporting as of December 31, 200 independent registered public accounting firm, as stated in their report included in this Item under the hea Firm."

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

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Report of Independent Registered Public Account

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements
equity and of cash flows, present fairly, in all material respects, the financial position of Assured Guaranty
2008 and 2007, and the results of their operations and their cash flows for each of the three years in the per
principles generally accepted in the United States of America. Also in our opinion, the Company maintaine
financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated I*
Organizations of the Treadway Commission (COSO). The Company's management is responsible for these
control over financial reporting and for its assessment of the effectiveness of internal control over financial
Financial Statements and Internal Control over Financial Reporting appearing under Item 8. Our responsib
on the Company's internal control over financial reporting based on our integrated audits. We conducted ou
Company Accounting Oversight Board (United States). Those standards require that we plan and perform
financial statements are free of material misstatement and whether effective internal control over financial
of the financial statements included examining, on a test basis, evidence supporting the amounts and disclo
principles used and significant estimates made by management, and evaluating the overall financial statem
reporting included obtaining an understanding of internal control over financial reporting, assessing the ris
the design and operating effectiveness of internal control based on the assessed risk. Our audits also includ
necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assu
preparation of financial statements for external purposes in accordance with generally accepted accounting
reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reaso
dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded a
accordance with generally accepted accounting principles, and that receipts and expenditures of the compa
management and directors of the company; and (iii) provide reasonable assurance regarding prevention or
disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect
effectiveness to future periods are subject to the risk that controls may become inadequate because of chan
policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
February 25, 2009

Assured Guaranty Ltd.

Consolidated Balance Sheets

(in thousands of U.S. dollars except per share and sha

Assets
Fixed maturity securities, at fair value (amortized cost: $3,162,308 in 2008 and $2,526,889 in 2007)
Short-term investments, at cost which approximates fair value
Total investments
Cash and cash equivalents
Accrued investment income
Deferred acquisition costs
Prepaid reinsurance premiums
Reinsurance recoverable on ceded losses
Premiums receivable
Goodwill
Credit derivative assets
Deferred income taxes
Current income taxes receivable
Salvage recoverable
Committed capital securities, at fair value
Other assets
Total assets
Liabilities and shareholders' equity
Liabilities
Unearned premium reserves
Reserves for losses and loss adjustment expenses
Profit commissions payable
Reinsurance balances payable
Current income taxes payable
Funds held by Company under reinsurance contracts
Credit derivative liabilities
Senior Notes
Series A Enhanced Junior Subordinated Debentures
Other liabilities
Total liabilities
Commitments and contingencies
Shareholders' equity
Common stock ($0.01 par value, 500,000,000 shares authorized; 90,955,703 and 79,948,979 shares issued and outstanding in 2008 and 2007)
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total shareholders' equity

Total liabilities and shareholders' equity	

The accompanying notes are an integral part of these consolidated

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Assured Guaranty Ltd.

Consolidated Statements of Operations and Comprehe

(in thousands of U.S. dollars except per share am

	For th
	2008
Revenues	
Gross written premiums	$ 618,2
Ceded premiums	(13,7
Net written premiums	604,5
Increase in net unearned premium reserves	(343,1
Net earned premiums	**261,3**
Net investment income	162,5
Net realized investment losses	(69,8
Change in fair value of credit derivatives	
Realized gains and other settlements on credit derivatives	117,5
Unrealized gains (losses) on credit derivatives	38,0
Net change in fair value of credit derivatives	155,6
Other income	43,4
Total revenues	**553,1**
Expenses	
Loss and loss adjustment expenses	265,7
Profit commission expense	1,3
Acquisition costs	61,2
Other operating expenses	83,4
Interest expense	23,2
Other expense	5,7
Total expenses	**440,8**
Income before provision (benefit) for income taxes	**112,3**
Provision (benefit) for income taxes	
Current	3
Deferred	43,1
Total provision (benefit) for income taxes	**43,4**
Net income (loss)	**68,8**
Other comprehensive (loss) income, net of taxes	
Unrealized holding (losses) gains on fixed maturity securities arising during the year	(109,4
Reclassification adjustment for realized losses included in net income (loss)	62,6
Change in net unrealized (losses) gains on fixed maturity securities	(46,7
Change in cumulative translation adjustment	(6,6

Change in cash flow hedge		(4
Other comprehensive (loss) income, net of taxes		**(53,74**
Comprehensive income (loss)	**$**	**15,14**
Earnings (loss) per share:		
Basic	$	0.
Diluted	$	0.
Dividends per share	$	0.

The accompanying notes are an integral part of these consolidated

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Assured Guaranty Ltd.

Consolidated Statements of Shareholders' Eq

For the years ended December 31, 2008, 2007 an

(in thousands of U.S. dollars)

	Common Stock	Additional Paid-in Capital	Unearned Stock Grant Compensation	Retained Earnings
Balance, December 31, 2005	**$ 748**	**$ 881,998**	**$ (14,756)**	**$ 747,691**
Net income				159,734
Dividends ($0.14 per share)				(10,478)
Common stock repurchases	(65)	(170,998)		
Shares cancelled to pay withholding taxes	(1)	(2,914)		
Stock options exercises	1	2,544		
Tax benefit for stock options exercised		170		
Shares issued under Employee Stock Purchase Plan		501		
Reclassification due to adoption of FAS 123R	(10)	(14,746)	14,756	
Share-based compensation and other	2	14,701		
Change in cash flow hedge, net of tax of $(225)				
Change in cumulative translation adjustment				
Unrealized loss on fixed maturity securities, net of tax of $(861)				
Balance, December 31, 2006	**$ 675**	**$ 711,256**	**$**	**$ 896,947**
Cumulative effect of FIN 48 adoption				2,629
Net loss				(303,272)
Dividends ($0.16 per share)				(11,048)
Common stock issuance, net of offering costs	125	303,696		
Common stock repurchases	(4)	(9,345)		
Shares cancelled to pay withholding taxes	(2)	(4,086)		
Stock options exercises	1	1,501		
Tax benefit for stock options exercised		183		
Shares issued under Employee Stock Purchase Plan		627		
Share-based compensation and other	4	20,054		
Change in cash flow hedge, net of tax of $(225)				
Change in cumulative translation adjustment				
Unrealized gain on fixed maturity securities, net of tax of $402				
Balance, December 31, 2007	**$ 799**	**$ 1,023,886**	**$**	**$ 585,256**
Net income				68,883

Dividends ($0.18 per share)				(16,015)	
Dividends on restricted stock units		69		(69)	
Common stock issuance, net of offering costs	107	248,948			
Shares cancelled to pay withholding taxes	(2)	(4,449)			
Stock options exercises		342			
Tax benefit for stock options exercised		16			
Shares issued under Employee Stock Purchase Plan		425			
Share-based compensation and other	6	15,133			
Change in cash flow hedge, net of tax of $(225)					
Change in cumulative translation adjustment					
Unrealized loss on fixed maturity securities, net of tax of $(21,523)					
Balance, December 31, 2008	**$ 910**	**$ 1,284,370**	**$**	**$ 638,055**	**$**

The accompanying notes are an integral part of these consolidated

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

		For t
		2008
Operating activities		
Net income (loss)	$	68.
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Non-cash interest and operating expenses		16.
Net amortization of premium on fixed maturity securities		2.
Provision (benefit) for deferred income taxes		43.
Net realized investment losses		69.
Unrealized (gains) losses on credit derivatives		(38.
Fair value gain on committed capital securities		(42.
Change in deferred acquisition costs		(29.
Change in accrued investment income		(6.
Change in premiums receivable		12.
Change in prepaid reinsurance premiums		(5.
Change in unearned premium reserves		346.
Change in reserves for losses and loss adjustment expenses, net		16.
Change in profit commissions payable		(13.
Change in funds held by Company under reinsurance contracts		5.
Change in current income taxes		(22.
Tax benefit for stock options exercised		
Other changes in credit derivatives assets and liabilities, net		7.
Other		(3.
Net cash flows provided by operating activities		**426.**
Investing activities		
Fixed maturity securities:		
Purchases		(1,272.
Sales		532.
Maturities		11.
Sales (purchases) of short-term investments, net		78.
Net cash flows used in investing activities		**(649.**
Financing activities		
Net proceeds from common stock issuance		248.
Repurchases of common stock		
Dividends paid		(16.
Proceeds from employee stock purchase plan		
Share activity under option and incentive plans		(4.
Tax benefit for stock options exercised		
Net proceeds from issuance of Series A Enhanced Junior Subordinated Debentures		
Debt issue costs		
Repayment of notes assumed during formation transactions		
Net cash flows provided by (used in) financing activities		**229.**
Effect of exchange rate changes		(2.

Increase (decrease) in cash and cash equivalents		4,
Cash and cash equivalents at beginning of year		8,
Cash and cash equivalents at end of year	**$**	**12,**
Supplemental cash flow information		
Cash paid during the year for:		
Income taxes	$	18,
Interest	$	23,

The accompanying notes are an integral part of these consolidated

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statement

December 31, 2008, 2007 and 2006

1. Business and Organization

On April 28, 2004, subsidiaries of ACE Limited ("ACE"), completed an initial public offering ("IPO" $0.01 per share, of Assured Guaranty Ltd. (the "Company"), formerly AGC Holdings Ltd. Assured Guara Exchange under the symbol "AGO". The IPO raised approximately $840.1 million in net proceeds, all of w

On December 20, 2006, Assured Guaranty US Holdings Inc., a subsidiary of the Company, complete Subordinated Debentures and used the proceeds to repurchase 5,692,599 of the Company's common share owns approximately 21% of the Company's outstanding common shares.

On December 21, 2007, the Company completed the sale of 12,483,960 of its common shares at a pri approximately $303.8 million. The Company has contributed the net proceeds of the offering to its reinsur Re has used the proceeds to provide capital support in the form of a reinsurance portfolio transaction with par outstanding, as well as to support the growth of Assured Guaranty Corp. ("AGC"), the Company's dire AG Re is AGC's principal financial guaranty reinsurer.

Assured Guaranty Ltd. is a Bermuda based holding company which provides, through its operating su structured finance and mortgage markets. Credit enhancement products are financial guarantees or other ty credit of underlying debt obligations. The Company issues policies in both financial guaranty and credit de expertise, risk management skills and capital markets experience to develop insurance, reinsurance and de customers. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees t part or all of the liability of the ceding company under one or more insurance policies that the ceding com characteristics and value depend upon the characteristics and value of an underlying security. Assured Gu financial institutions, serving the U.S. and international markets. Assured Guaranty Ltd.'s financial results direct, financial guaranty reinsurance, mortgage guaranty and other. These segments are further discussed

Financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the hol and interest when due. Financial guaranty insurance may be issued to the holders of the insured obligation in the secondary market to holders of public bonds and structured securities. A loss event occurs upon exis a policy occurs when the insured obligation defaults. This requires the Company to pay the required princi contract. The principal types of obligations covered by the Company's financial guaranty direct and financ finance obligations and public finance obligations. Because both businesses involve similar risks, the Com

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

1. Business and Organization (Continued)

portfolio and financial guaranty assumed reinsurance portfolio on a unified process and procedure basis.

Mortgage guaranty insurance is a specialized class of credit insurance that provides protection to mor mortgage loans that, at the time of the advance, had a loan to value in excess of a specified ratio. Reinsurar increase the insurance capacity of the ceding company, to assist the ceding company in meeting applicable financial strength of the ceding company, and to manage the ceding company's risk profile. The Company basis.

The Company has participated in several lines of business that are reflected in its historical financial s 2004 initial public offering ("IPO"). The results from these lines of business make up the Company's Other

On April 8, 2008, investment funds managed by WL Ross & Co. LLC ("WL Ross") purchased 10,65 $23.47 per share, resulting in proceeds to the Company of $250.0 million. The Company contributed $150 reinsurance subsidiary, AG Re. In addition, the Company contributed $100.0 million of these proceeds to i turn contributed the same amount to its Maryland domiciled insurance subsidiary, AGC. The commitment February 29, 2008. In addition, Wilbur L. Ross, Jr., President and Chief Executive Officer of WL Ross, wa serve a term expiring at the Company's 2009 annual general meeting of shareholders. Mr. Ross's appointm 2008 annual general meeting of shareholders, which was held on May 8, 2008. WL Ross has a remaining c $750.0 million of the Company's common equity, at the Company's option, subject to the terms and condit February 28, 2008. In accordance with the investment agreement, the Company may exercise this option ir of $50 million, provided that the purchase price per common share for the subsequent shares is not greater rated triple-A (Stable) by Moody's, Standard & Poor's and Fitch to drawdown on the commitment. The pur to 97% of the volume weighted average price of a common share on the NYSE for the 15 NYSE trading da December 31, 2008, and as of the date of this filing, the purchase price per common share is outside of this exercise its option for WL Ross to purchase additional shares.

On September 16, 2008, the Company agreed to waive the standstill provisions of the investment agre "WLR Funds") to purchase up to 5,000,000 additional common shares of the Company in open market tran such purchases are in the sole discretion of WL Ross and they are not obligated to purchase any such share will be purchased from current shareholders and therefore will not result in an increase in shareholders' equ additional shares were purchased, the WLR

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

1. Business and Organization (Continued)

Funds would beneficially own 17,166,396 shares or approximately 18.9% of the Company's outstanding c
December 31, 2008. As of the date of this filing, the Company has not been notified that WLR Funds purc

The Company's subsidiaries have been assigned the following insurance financial strength ratings:

	Moody's
Assured Guaranty Corp.	Aa2(Excellent
Assured Guaranty Re Ltd.	Aa3(Excellent
Assured Guaranty Re Overseas Ltd.	Aa3(Excellent
Assured Guaranty Mortgage Insurance Company	Aa3(Excellent
Assured Guaranty (UK) Ltd.	Aa2(Excellent

On November 21, 2008, Moody's downgraded the insurance financial strength ratings of AGC and its
downgraded the insurance financial strength ratings of AG Re and its affiliated insurance operating compa
downgraded the senior unsecured rating of AGUS and the issuer rating of the ultimate holding company, A
these downgrades, Moody's also announced that its ratings outlook for all of Assured's ratings was "stable.
categorized as stable from Moody's, Standard & Poor's Rating Service, a division of McGraw-Hill Compa

Acquisition of Financial Security Assurance Holdings Ltd.

On November 14, 2008, Assured Guaranty Ltd. announced that it had entered into a definitive agreem
("Dexia") to purchase Financial Security Assurance Holdings Ltd. ("FSAH") and, indirectly, all of its subs
Financial Security Assurance, Inc. The definitive agreement provides that the Company will be indemnifie
which includes its guaranteed investment contract business. Pursuant to the Purchase Agreement, the Com
of common stock of FSAH, representing as of the date thereof approximately 99.8524% of the issued and
shares of FSAH are currently held by current or former directors of FSAH. Assured expects that it will acq
with the closing of the acquisition of shares of FSAH common stock from Dexia or shortly thereafter at the
expected to occur in either the first or second quarter of 2009.

The purchase price is $722 million (based upon the closing price of the Company's common shares o
$361 million in cash and up to 44,567,901 of the Company's common shares. Under the Purchase Agreem
lieu of up to 22,283,951 of the Company's common shares that it would otherwise deliver as part of the pu

The Company expects to finance the cash portion of the acquisition with the proceeds of a public equ
commitment ("the WLR Backstop

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

1. Business and Organization (Continued)

Commitment") from the WLR Funds, a related party, to fund the cash portion of the purchase price with th
entered into the WLR Backstop Commitment on November 13, 2008 with the WLR Funds. The WLR Bac
between the Company and the WLR Funds and provided to the Company the option to cause the WLR Fur
Guaranty US Holdings Inc. a number of the Company's common shares equal to the quotient of (i) the agg
the Company divided by (ii) the volume weighted average price of the Company's common share on the N
NYSE trading day immediately preceding the date of the closing under the stock purchase agreement, with
cause WLR Funds to purchase the Company's common shares at the floor amount of $6.00, WLR Funds w
shares.

The WLR Funds have no obligation to purchase these common shares pursuant to the WLR Backstop
agreement occurs. The Company may use the proceeds from the sale of the Company's common shares pu
portion of the purchase price under the stock purchase agreement. The WLR Funds' obligations under the V
credit issued for the benefit of the Company by Bank of America, N.A. and RBS Citizens Bank, N.A., each

The Company has paid the WLR Funds a nonrefundable commitment fee of $10,830,000 in connectic
Commitment and has agreed to pay the WLR Funds' expenses in connection with the transactions contemp
WLR Funds for the $4.1 million cost of obtaining the letters of credit referred to above.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles ge
which requires management to make estimates and assumptions that affect the reported amounts of assets a
liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and
differ from those estimates. (See Notes 4 and 11 for discussion of significant estimates of derivatives and l

The volatility and disruption in the global financial markets have reached unprecedented levels. The a
These factors, combined with volatile oil prices, depressed home prices and increasing foreclosures, falling
confidence and the risks of increased inflation and unemployment, have precipitated an economic slowdov
adversely affect our profitability, financial position, investment portfolio, cash flow, statutory capital, finar
legislative, regulatory or judicial changes in the

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2. Significant Accounting Policies (Continued)

jurisdictions regulating our Company may adversely affect our ability to pursue our current mix of busines

All intercompany accounts and transactions have been eliminated.

Reclassifications

Certain prior year items have been reclassified to conform to the current year presentation.

Effective with the quarter ended March 31, 2008, the Company reclassified the revenues, expenses an contracts that the Company's financial guaranty subsidiaries write in the form of credit default swap ("CDS Company's net income (loss) or shareholders' equity. This reclassification is being adopted by the Compan of Financial Guaranty Insurers in consultation with the staffs of the Office of the Chief Accountant and the Exchange Commission. The reclassification is being implemented in order to increase comparability of the guaranty companies that have CDS contracts.

In general, the Company structures credit derivative transactions such that circumstances giving rise t financial guaranty policies and generally occurs as losses are realized on the underlying reference obligatio International Swaps and Derivatives Association, Inc. ("ISDA") documentation and operates differently fro contracts are subject to derivative accounting rules and financial guaranty policies are subject to insurance

In the accompanying consolidated statements of operations and comprehensive income, the Company earned premiums" to "realized gains and other settlements on credit derivatives." Loss and loss adjustment "loss and loss adjustment expenses (recoveries)" have been reclassified to "realized gains and other settlem and loss adjustment expenses have been reclassified from "loss and loss adjustment expenses (recoveries)" derivatives," which previously included only unrealized mark to market gains or losses on the Company's c sheet, the Company reclassified all CDS-related balances previously included in "unearned premium reserv "prepaid reinsurance premiums," "premiums receivable" and "reinsurance balances payable" to either "cred depending on the net position of the CDS contract at each balance sheet date.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

2. Significant Accounting Policies (Continued)

The effects of these reclassifications on the Company's consolidated balance sheet as of December 31
comprehensive income and cash flows for the years ended December 31, 2007 and 2006 are as follows (do

	As of As previo reporte
ASSETS:	
Prepaid reinsurance premiums	$ 17,(
Premiums receivable	57,9
Unrealized gains on derivative financial instruments(1)	17,3
Credit derivative assets	
Committed capital securities, at fair value(1)	
Total assets	3,800,3
LIABILITIES AND SHAREHOLDERS' EQUITY:	
Unearned premium reserves	$ 908,3
Reserves for losses and loss adjustment expenses	133,8
Reinsurance balances payable	4,
Unrealized losses on derivative financial instruments	630,2
Credit derivative liabilities	
Total liabilities	2,133,7
Total shareholders' equity	1,666,5
Total liabilities and shareholders' equity	3,800,3

(1) A fair value gain of $8.3 million related to Assured Guaranty Corp.'s commi gains on derivative financial instruments" at December 31, 2007 has been rec conform with the 2008 presentation.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

2. Significant Accounting Policies (Continued)

	Year Ended December 31 2007	
	As previously reported	As reclassifie
Gross written premiums	$ 505,899	$ 424,54
Ceded premiums	(19,615)	(16,57
Net written premiums	486,284	407,97
Increase in net unearned premium reserves	(254,304)	(248,71
Net earned premiums	231,980	159,25
Realized gains and other settlements on credit derivatives		73,99
Unrealized (losses) gains on derivative financial instruments(1)	(658,535)	
Unrealized (losses) gains on credit derivatives		(670,40
Other income(1)	485	8,80
Loss and loss adjustment expenses (recoveries)	7,965	5,77
Acquisition costs	43,244	43,15
Net (loss) income	(303,272)	(303,27

(1) A fair value gain of $8.3 million related to Assured Guaranty Corp.'s committed capital securitie derivative financial instruments" for the year ended December 31, 2007 has been reclassified to '

	Year Ended December 31, 2007	
	As previously reported	As reclassified
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrealized losses (gains) on derivative financial instruments(1)	$ 658,535	$
Fair value gain on committed capital securities(1)		(8,316)
Unrealized losses (gains) on credit derivatives		670,403
Change in premiums receivable	(16,349)	(5,029)
Change in prepaid reinsurance premiums	(9,549)	(8,994)
Change in unearned premium reserves	263,853	257,705
Change in reserves for losses and loss adjustment expenses, net	10,926	8,391
Other changes in credit derivative assets and liabilities, net		(6,744)
Net cash provided by operating activities	385,850	385,850

(1) A fair value gain of $8.3 million related to Assured Guaranty Corp.'s committed capital securitie on derivative financial instruments" for the year ended December 31, 2007 has been reclassified conform with the 2008 presentation.

These adjustments had no impact on net income (loss), comprehensive income (loss), earnings (loss)

Premium Revenue Recognition

Premiums are received either upfront or in installments. Upfront premiums are earned in proportion to
premium is earned ratably over its

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

2. Significant Accounting Policies (Continued)

installment period, generally one year or less. Premium earnings under both the upfront and installment re proportion to the principal amount guaranteed and therefore result in higher premium earnings during peri for which the par value outstanding is declining during the insurance period, upfront premium earnings are recognition with the underlying risk. The premiums are allocated in accordance with the principal amortiz over the amortization period. When an insured issue is retired early, is called by the issuer, or is in substan placing U.S. Government securities in escrow, the remaining unearned premium reserves are earned at tha premiums written that is applicable to the unexpired amount at risk of insured bonds.

In the Company's reinsurance businesses, the Company estimates the ultimate written and earned pre each quarter and the end of each year because some of the Company's ceding companies report premium d period. Written premiums reported in the Company's statement of operations are based upon reports receiv own estimates of premium for which ceding company reports have not yet been received. Differences betw period in which the actual amounts are determined.

Investments

The Company accounts for its investments in fixed maturity securities in accordance with the Financi Financial Accounting Standards ("FAS") No. 115, "Accounting for Certain Investments in Debt and Equit appropriate classification of securities at the time of purchase. As of December 31, 2008 and 2007, all inve available-for-sale and are carried at fair value with a corresponding adjustment to accumulated other comp investments are calculated from independent market valuations. The fair values of the Company's U.S. Tre dealer quotes obtained from several independent active market makers. The fair values of the Company's p primarily using matrix pricing models. The matrix pricing models incorporate factors such as tranche type, spreads, in order to calculate the fair values of specific securities owned by the Company.

The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretio That amortization or accretion is included in net investment income. For mortgage-backed securities, and a prepayment assumptions are evaluated and revised as necessary. Any necessary adjustments required due t recognized in current income.

Realized gains and losses on sales of investments are determined using the specific identification met applicable deferred income taxes, are

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Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

2. Significant Accounting Policies (Continued)

included in accumulated other comprehensive income in shareholders' equity. The Company has a formal r
including a review for impairment losses. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether scheduled interest payments are past due; and
- whether the Company has the ability and intent to hold the security for a sufficient per

If the Company believes a decline in the value of a particular investment is temporary, the decline is r "accumulated other comprehensive income" in shareholders' equity. If the Company believes the decline is carrying value of the investment and record a realized loss in its consolidated statements of operations and recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investmen of expected future cash flows of the security, if the recoverable value of the investment based upon those c after the impairment.

The Company's assessment of a decline in value includes management's current assessment of the fac outside investment managers. If that assessment changes in the future, the Company may ultimately record value was temporary.

As part of its other than temporary impairment review process, management considers the nature of th related), the severity (both as a percentage of book value and absolute dollars) and duration of the impairm any other available evidence, such as discussions with investment advisors, volatility of the securities fair v assessment.

Short-term investments are recorded at cost, which approximates fair value. Short-term investments a but less than one year from date of purchase.

Cash and Cash Equivalents

The Company classifies demand deposits as cash. Cash equivalents are short-term, highly liquid inves

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2. Significant Accounting Policies (Continued)

Deferred Acquisition Costs

Acquisition costs incurred, other than those associated with credit derivative products, that vary with deferred and amortized in relation to earned premiums. These costs include direct and indirect expenses su of underwriting and marketing personnel. Management uses its judgment in determining what types of cos costs should be deferred. The Company annually conducts a study to determine which operating costs vary business and qualify for deferral. Ceding commissions received on premiums the Company cedes to other adjustment expenses and the remaining costs of servicing the insured or reinsured business are considered Acquisition costs associated with credit derivative products are expensed as incurred. When an insured issu Revenue Recognition section, the remaining related deferred acquisition cost is expensed at that time.

Reserves for Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses for non-derivative transactions in the Company's fir reinsurance and mortgage guaranty business include case reserves and portfolio reserves. See Note 4. Cred derivative transactions. Case reserves are established when there is significant credit deterioration on speci default is probable, not necessarily upon non-payment of principal or interest by an insured. Case reserves and loss adjustment expenses ("LAE"), net of estimated recoveries, but before considering ceded reinsuran established by traditional property and casualty insurance companies, which establish case reserves upon n ("IBNR") reserves for the difference between actuarially estimated ultimate losses and recorded case reser case reserves and related salvage and subrogation, if any, are discounted at the taxable equivalent yield on 6%, in all periods presented. When the Company becomes entitled to the underlying collateral of an insure claim payment, it reduces the corresponding loss reserve for a particular financial guaranty insurance polic with FAS No. 60, "Accounting and Reporting by Insurance Enterprises". If the expected salvage and subro amounts are recorded as a salvage recoverable asset in the Company's balance sheets.

The Company records portfolio reserves in its financial guaranty direct, financial guaranty assumed re are established with respect to the portion of the Company's business for which case reserves have not bee

Portfolio reserves are not established based on a specific event, rather they are calculated by aggregat transaction. Individual transaction reserves are calculated on a quarterly basis by multiplying the par in-for without regard to discounting. The ultimate loss factor is defined as

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2. Significant Accounting Policies (Continued)

the frequency of loss multiplied by the severity of loss, where the frequency is defined as the probability o
inception to date earned premium divided by the estimated ultimate written premium for each transaction.
data and is based on the transaction's credit rating, industry sector and time until maturity. The severity is c
by the rating agencies of defaulting issues and is based on the industry sector.

Portfolio reserves are recorded gross of reinsurance. The Company has not ceded any amounts under
portfolio reserves have not exceeded the Company's contractual retentions, required by said contracts.

The Company records an incurred loss that is reflected in the statement of operations upon the establi
records a case reserve, the Company reclassifies the corresponding portfolio reserve already recorded for t
the initially recorded case reserve and the reclassified portfolio reserve is recorded as a charge in the Comp
portfolio reserves or the initial case reserves are recorded quarterly as a charge or credit in the Company's s
Due to the inherent uncertainties of estimating loss and LAE reserves, actual experience may differ from t
statements, and the differences may be material.

The Company also records IBNR reserves for its other segment. IBNR is an estimate of losses for wh
been reported to the Company. In establishing IBNR, the Company uses traditional actuarial methods to es
experience, claim reviews and information reported by ceding companies. The Company records IBNR fo
100% reinsured. The other segment represents lines of business that the Company exited or sold as part of

For mortgage guaranty transactions the Company records portfolio reserves in a manner consistent wi
guaranty insurance companies do not record portfolio reserves, rather just case and IBNR reserves, the Co
business on an excess of loss basis, while other industry participants write quota share or first layer loss bu
in the same manner as its financial guaranty insurance and reinsurance business because they have similar
securities.

FAS No. 60 is the authoritative guidance for an insurance enterprise. FAS 60 prescribes differing rese
within its definition of a short-duration contract or a long-duration contract. Financial guaranty contracts h
are irrevocable and extend over a period that may exceed 30 years or more, but for regulatory purposes are
normally considered short-duration contracts. The short-duration and long-duration classifications have dif
contract liability recognition. Additionally, the accounting for deferred acquisition costs ("DAC") could be

2. Significant Accounting Policies (Continued)

The Company believes the guidance of FAS 60 does not expressly address the distinctive characterist applies the analogous guidance of Emerging Issues Task Force ("EITF") Issue No. 85-20, "Recognition of provides guidance relating to the recognition of fees for guaranteeing a loan, which has similarities to finar EITF 85-20, the guarantor should assess the probability of loss on an ongoing basis to determine if a liabili Contingencies" ("FAS 5"). FAS 5 requires that a loss be recognized where it is probable that one or more f incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The Company is aware that there are certain differences regarding the measurement of portfolio loss l In January and February 2005, the Securities and Exchange Commission ("SEC") staff had discussions cor participants. Based on those discussions, in June 2005, the FASB staff decided additional guidance is nece FASB issued FAS No. 163, "Accounting for Financial Guarantee Insurance Contracts An Interpretation o information.

Profit Commissions

Under the terms of certain of the Company's reinsurance contracts, the Company is obligated to pay th commission based upon a specified percentage of the net underwriting profits. The Company's liability for the balance sheet under the caption, "Profit commissions payable". The unamortized discount on this liabil

Reinsurance

In the ordinary course of business, the Company's insurance subsidiaries assume and retrocede busine agreements provide greater diversification of business and may minimize the net potential loss from large r its obligation to the reinsured. Reinsurance recoverable on ceded losses includes balances due from reinsur be recovered from reinsurers, based on contracts in force, and is presented net of any provision for estimate uncollectible reinsurance is included in loss and loss adjustment expenses. Prepaid reinsurance premiums r to the unexpired terms of the reinsurance contracts in force.

Certain of the Company's assumed and ceded reinsurance contracts are funds held arrangements. In a premiums instead of paying them to the reinsurer and losses are offset against these funds in an experience the reinsurer earns interest on the experience account balance at a predetermined credited rate of interest. T between 4% and 6% on its assumed funds held arrangements and generally pays interest at fixed rates of b interest earned or credited on funds

2. Significant Accounting Policies (Continued)

held arrangements is included in net investment income. In addition, interest on funds held arrangements w account is fully depleted, which can extend many years beyond the expiration of the coverage period.

Goodwill

In connection with FAS No. 142, "Goodwill and Other Intangible Assets", the Company does not amo impairment test annually or more frequently should circumstances warrant. The impairment test evaluates Company's direct and reinsurance lines of business to their carrying value. If fair value is greater than carry there is no impairment. If fair value is less than carrying value then goodwill is deemed to be impaired and reporting unit is equal to the carrying value, but not less than $0. No such impairment to goodwill was reco

As part of the impairment test of goodwill, there are inherent assumptions and estimates used by mana our direct and reinsurance lines of business that are subject to change based on future events. Management losses, expenses, interest rates, cost of capital and tax rates. Many of the factors used in assessing fair valu likely that assumptions and estimates will change in future periods. These changes can result in future imp

The Company has concluded that it is reasonably likely that the goodwill associated with our reinsura if the volume of new business in the financial guaranty reinsurance market does not return to historical lev continue to execute portfolio based reinsurance contracts on blocks of business for other financial guarant may cause a triggering event that will cause management to reassess its goodwill amounts related to its rei information.

Income Taxes

Certain of the Company's subsidiaries are subject to U.S. income tax. In accordance with FAS No. 10 provided for with respect to the temporary differences between the financial statement carrying amounts a effect for the year in which the differences are expected to reverse. Such temporary differences relate princ LAE, unearned premium reserves, unrealized gains and losses on investments, unrealized gains and losses valuation allowance is recorded to reduce the deferred tax asset to that amount that is more likely than not

Earnings Per Share

Basic earnings per share is calculated using the weighted-average number of common shares outstand the shares issued are increased to

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

2. Significant Accounting Policies (Continued)

include all potentially dilutive securities. All potentially dilutive securities, including nonvested restricted s per share calculation. Basic and diluted earnings per share are calculated by dividing net income by the app Earnings (Loss) Per Share, for more information.

Share-Based Compensation

Prior to January 1, 2006, the Company accounted for its share-based employee compensation plans un Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") an "Accounting for Stock-Based Compensation" ("FAS 123"). In accordance with FAS 123 and FAS No. 148 Disclosure" ("FAS 148") the Company disclosed its net income and earnings per share in the notes to cons the fair value-based method in measuring compensation expense for its share-based incentive programs.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FAS No. 123 modified prospective transition method. Under that transition method, compensation expense includes: (a) prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the g provisions of FAS 123R. See Note 20 for further discussion regarding the methodology utilized in recogni

Variable Interest Entities and Special Purpose Entities

The Company provides financial guarantees with respect to debt obligations of special purpose entitie Company's variable interest exists through this financial guaranty insurance or credit derivative contract. T protections to the Company. This financial protection can take several forms, the most common are over-c excess spread. In the case of over-collateralization (i.e. the principal amount of the securitized assets excee guaranteed by the Company), the structure allows defaults of the securitized assets before a default is expe Company. In the case of first loss, the financial guaranty insurance policy only covers a senior layer of loss including VIEs. The first loss exposure with respect to the assets is either retained by the seller or sold off the case of excess spread, the financial assets contributed to special purpose entities, including VIEs, gener payments on the debt issued by the special purpose entity. Such excess spread is typically distributed throu create additional credit enhancement, applied to redeem debt issued by the special purpose entity (thereby equity or other investors in the transaction.

There are two different accounting frameworks applicable to special purpose entities ("SPE"); the qua VIE framework under Financial

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

2. Significant Accounting Policies (Continued)

Interpretation ("FIN") 46R "Consolidation of Variable Interest Entities". The applicable framework depend that entity. The QSPE framework is applicable when an entity transfers (sells) financial assets to a SPE me designed to ensure that the activities of the entity are essentially predetermined in their entirety at the incep to certain events, and that the transferor of the financial assets cannot exercise control over the entity and th consolidated by the transferor or other counterparty, as long as the entity does not have the unilateral abilit criteria. SPEs meeting all of FAS 140's criteria for a QSPE are not within the scope of FIN 46 and as such, not meet the QSPE criteria, consolidation is assessed pursuant to FIN 46R. Under FIN 46R, a VIE is defin determining which party maintains a controlling financial interest. As such, a VIE (i) lacks enough equity i without additional subordinated financial support from other parties, (ii) its equity owners lack the right to and (iii) its equity owners do not have an obligation to absorb or the right to receive the entity's losses or re investor in the entity or a financial guarantor) to consolidate that VIE if that holder will absorb a majority o residual returns of the VIE, or both. The Company determines whether it is the primary beneficiary of a VI includes, among other factors, its capital structure, contractual terms, which variable interests create or abs the VIE. When qualitative analysis is not conclusive the Company performs a quantitative analysis. To dat indicated that the Company does not have a majority of the variability in any of these VIEs and as a result financial statements. The Company's exposure provided through its financial guarantees with respect to de net par in force in Note 7. Insurance In Force.

Qualifying Special Purpose Entities:

During 2006, the Company issued a financial guaranty on financial assets that were transferred into a entity was to provide a financial guarantee client with funding for their debt obligation. This entity met the QSPEs are not subject to the requirements of FIN 46R and accordingly are not consolidated in the Compan demonstrably distinct from the Company, and neither the Company, nor its affiliates or its agents can unila are contractually limited to purchasing assets, issuing notes to fund such purchases, and related administrat insurance policy, insurance premiums are paid to the Company by the QSPE and are earned in a manner co Any losses incurred would be included in the Company's consolidated statements of operations.

There were no such transactions during 2008 or 2007.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

3. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued FAS No. 157, "Fair V value, establishes a framework for measuring fair value and expands disclosures about fair value measuren that require or permit fair value measurements, since the FASB had previously concluded in those account Accordingly, FAS 157 does not require any new fair value measurements. FAS 157 is effective for the mea statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fisc the effective date of FAS 157 for non-financial assets and liabilities for fiscal years beginning after Novem assets and liabilities effective January 1, 2008 and will adopt FAS 157 for non-financial assets and liabiliti

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Li choose, at specified election dates, to measure many financial assets and financial liabilities (as well as cer instruments) at fair value (the "fair value option"). The election is made on an instrument-by-instrument ba instrument, FAS 159 specifies that all subsequent changes in fair value for that instrument shall be reported FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 The Company did not apply the fair value option to any eligible items on the adoption date.

In April 2007, the FASB Staff issued FASB Staff Position No. FIN 39-1, "Amendment of FASB Inter companies to offset cash collateral receivables or payables with net derivative positions under certain circu beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 did not affect the Comp

In December 2007, the FASB issued FAS No. 141 (revised), "Business Combinations" ("FAS 141R") the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquire the acquiree. FAS 141R also provides guidance for recognizing and measuring the goodwill acquired in th disclose to enable users of the financial statement to evaluate the nature and financial effects of the busines issued for fiscal years beginning after December 15, 2008, and interim statements within those fiscal years prospectively to business combinations whose acquisition date is subsequent to the statement's adoption. T account for its pending acquisition of FSAH. As of December 31, 2008, the Company had paid $2.7 millio FSAH that the Company plans to expense in the first quarter 2009.

In December 2007, the FASB issued FAS No. 160, "Noncontrolling Interests in Consolidated Financi FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary for t

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

3. Recent Accounting Pronouncements (Continued)

subsidiary. FAS 160 is effective for financial statements issued for fiscal years beginning after December 1
Company is currently evaluating the impact, if any, FAS 160 will have on its consolidated financial statem

In March 2008, the FASB issued FAS No. 161, "Disclosures About Derivative Instruments and Hedg
("FAS 161"). FAS 161 establishes the disclosure requirements for derivative instruments and for hedging a
for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. F
current results of operations or financial position.

In May 2008, the FASB issued FAS No. 163, "Accounting for Financial Guarantee Insurance Contrac
enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence tha
obligation. FAS 163 also clarifies the methodology to be used for financial guaranty premium revenue rec
expanded disclosures about the insurance enterprise's risk management activities. The provisions of FAS 1
measurement are effective for financial statements issued for fiscal years beginning after December 15, 20
application of these provisions is not permitted. The expanded risk management activity disclosure provisi
and are included in Note 11 of the these financial statements. FAS 163 will be applied to all existing and fu
Company. The cumulative effect of initially applying FAS 163 will be recorded as an adjustment to retaine
effect of FAS 163 to be material to premiums receivable and unearned premium reserve on its balance she
premiums. The Company is in the process of finalizing the impact of the adoption of FAS 163 on retained
recognition and claims liability methodologies. The Company will disclose the impact of the adoption of F

In June 2008, the FASB issued FSP EITF 03-6-1, "Participating Securities and the Two-Class Metho
addresses whether instruments granted in share-based payment transactions are participating securities pric
allocation in calculating earnings per share ("EPS") under the two-class method described in FAS No. 128
unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents
share. The FSP is effective for fiscal years beginning after December 15, 2008; earlier application is not pe
be adjusted retrospectively. The Company does not expect adoption of the FSP to have a material effect or

In October 2008, the FASB issued FASB Staff Position No. 157-3, "Determining the Fair Value of a
Active" ("FSP 157-3"). FSP 157-3 clarified the application of FAS 157, "Fair Value Measurements", in a r
issued. It did not have an impact on the Company's current results of operations or financial position.

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3. Recent Accounting Pronouncements (Continued)

The FASB adopted FSP FAS 133-1 and FIN 45-4, "Disclosures About Credit Derivatives and Certain Instruments and Hedging Activities" to address concerns that current derivative disclosure requirements di these instruments can have on the financial performance and operations of an entity. Companies will be rec activities to enable users to better understand: (1) how and why a company uses derivatives, (2) how it acc derivatives affect its financial statements. These should include the terms of the derivatives, collateral post that could be detrimental to earnings or liquidity. Disclosures specific to credit derivatives must be include other derivative and hedging disclosures must be included in the Company's March 31, 2009 Form 10-Q. M disclosures are in compliance with the items required by FSP 133-1 and FAS 161.

In December 2008, the FASB adopted FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entit Interests in Variable Interest Entities" to require public entities to provide, among other things, additional d involvement with variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 was effective when issues. It operations or financial position.

4. Credit Derivatives

Credit derivatives issued by the Company, principally in the form of insured CDS contracts, have bee No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), FAS No. 149, "Ar Hedging Activities" ("FAS 149") and FAS No. 155, "Accounting for Certain Hybrid Financial Instruments recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those derivative may be specifically designated as a fair value, cash flow or foreign currency hedge. FAS 155 rec derivatives relating to beneficial interests in securitized financial instruments. This recognition was not req the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Realized gains and other settlements on credit derivatives include credit derivative premiums received under its insured CDS as well as any contractual claim losses paid and payable related to insured credit eve income and realized gains or losses related to their early termination. The Company generally holds credit circumstances such as for risk management purposes or as a result of a decision to exit a line of business, t contract prior to maturity.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

4. Credit Derivatives (Continued)

The following table disaggregates realized gains and other settlements on credit derivatives into its co
and 2006 (dollars in thousands):

	Year Ended D	
	2008	20
Realized gains and other settlements on credit derivatives		
Net credit derivative premiums received and receivable	$118,077	$72,
Net credit derivative losses recovered and recoverable	391	1,
Ceding commissions (paid/payable) received/receivable, net	(879)	
Total realized gains and other settlements on credit derivatives	$117,589	$73,

Unrealized gains (losses) on credit derivatives represent the adjustments for changes in fair value that
Changes in unrealized gains and losses on credit derivatives are reflected in the consolidated statements of
(losses) on credit derivatives. Cumulative unrealized losses, determined on a contract by contract basis, are
Company's balance sheets. Unrealized gains and losses resulting from changes in the fair value of credit de
spreads, the credit ratings of the referenced entities and the issuing Company's own credit rating and other
derivatives will reduce to zero as the exposure approaches its maturity date, unless there is a payment defa
Company's credit derivative contracts do not reflect actual claims or credit losses, and have no impact on t
or regulatory capital positions.

The Company determines fair value of its credit derivative contracts primarily through modeling that
observable market indices and on recent pricing for similar contracts, and expected contractual life to deriv
market (see Note 5). Credit spreads capture the impact of recovery rates and performance of underlying ass
pricing model takes into account not only how credit spreads on risks that it assumes affects pricing, but ho
deals. If credit spreads of the underlying obligations change, the fair value of the related credit derivative c
underlying obligations.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and oth
determined. In addition, since each transaction has unique collateral and structure terms, the underlying ch
The fair value of credit derivative contracts also reflects the change in the Company's own credit cost base
2008, the Company incurred net pre-tax unrealized gains on credit derivative contracts of $38.0 million. T
associated with the change in AGC's credit spread, which widened substantially from 180 basis points at D

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

4. Credit Derivatives (Continued)

December 31, 2008. Management believes that the widening of AGC's credit spread is due to the correlatio by the broader financial markets and increased demand for credit protection against AGC as the result of it to the significant increase in AGC's credit spread were declines in fixed income security market prices prin result of the continued deterioration in credit markets and some credit rating downgrades, rather than from Company. The higher credit spreads in the fixed income security market are due to the recent lack of liquid collateralized loan obligation markets as well as continuing market concerns over the most recent vintages commercial mortgage backed securities. The 2007 loss of $670.4 million primarily related to spreads wide approximately 45% of the Company's unrealized loss on credit derivatives was due to a decline in the mark collateralized loan obligation transactions, with the balance generated by lower market values principally i markets. The 2006 gain of $11.8 million primarily related to the run-off of transactions and changes in cre

The total notional amount of credit derivative exposure outstanding as of December 31, 2008 and Dec guaranty exposure was $75.1 billion and $71.6 billion, respectively.

The components of the Company's unrealized gain (loss) on credit derivatives as of December 31, 20

Asset Type	Net Par Outstanding (in billions)	Weigh Avera Cred Rating
Corporate collateralized loan obligations	$ 26.3	AA
Market value CDOs of corporates	3.8	AA
Trust preferred securities	6.2	AA
Total pooled corporate obligations	**36.3**	**AA**
Commercial mortgage-backed securities	5.8	AA
Residential mortgage-backed securities	20.3	AA
Other	9.7	AA
Total	**$ 72.0**	**AA**
Reinsurance exposures written in CDS form	3.2	AA
Grand Total	**$ 75.1**	**AA**

(1) Based on the Company's internal rating, which is on a comparable scale to th

Corporate collateralized loan obligations, market value CDO's, and trust preferred securities, which co all U.S. structured finance pooled corporate obligations and international pooled corporate obligations. Co

commercial U.S. structured finance and commercial international mortgage	
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4. Credit Derivatives (Continued)

backed securities. Residential mortgage-backed securities are comprised of prime and subprime U.S. mortg
residential mortgage-backed and international home equity securities. Other includes all other U.S. and inte
international infrastructure and pooled infrastructure securities.

The Company's exposure to pooled corporate obligations is highly diversified in terms of obligors and
to limit exposure to any given obligor and industry. The majority of the Company's pooled corporate expos
obligations ("CLOs"). Most of these direct CLOs have an average obligor size of less than 1% and typicall
approximately 10%. The Company's exposure also benefits from embedded credit enhancement in the tran
of losses in the underlying collateral, further insulating the Company from industry specific concentrations

The Company's $9.7 billion exposure to Other CDS contracts is also highly diversified. It includes $4
comprised of diversified pools of international infrastructure project transactions and loans to regulated uti
enhancement sufficient for the Company to attach at super senior AAA levels. The remaining $5.7 billion o
deals typically structured with significant underlying credit enhancement and spread across various asset c
regulated utilities and consumer receivables. Substantially all of this $9.7 billion of exposure is rated inves

The unrealized loss of $(339.2) million on Other CDS contracts for the year ended December 31, 200
assumption and widening of spreads for a pooled infrastructure transaction during the Second Quarter 2008
the ratings downgrades on a wrapped film securitization transaction where the Company provided credit pr
guarantor. The ratings downgrade of that other financial guarantor caused the downgrade and credit spread
in an unrealized loss of $(104.6) million.

With considerable volatility continuing in the market, unrealized gains (losses) on credit derivatives m

The Company's exposure to the mortgage industry is discussed in Note 11.

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December 31, 2008, 2007 and 2006

4. Credit Derivatives (Continued)

The following table presents additional details about the Company's unrealized gain on pooled corpor loan obligations, market value CDOs and trust preferred securities, by asset type as of December 31, 2008:

Asset Type	Original Subordination(2)	Current Subordination(2)	Net Pa Outstand (in billion
High yield corporates	36.2%	32.3%	$ 2
Trust preferred	46.3%	42.6%	
Market value CDOs of corporates	39.2%	26.0%	
Investment grade corporates	28.6%	29.9%	
Commercial real estate	49.1%	49.1%	
CDO of CDOs (corporate)	1.7%	4.9%	
Total	**37.9%**	**33.5%**	**$ 3**

(1) Based on the Company's internal rating, which is on a comparable scale to that of the nationally

(2) Represents the sum of subordinate tranches and over-collateralization and does not include any b absorb losses.

The following table presents additional details about the Company's unrealized gain on credit derivati by vintage as of December 31, 2008:

Vintage	Original Subordination(2)	Current Subordination(2)	Net Pa Outstand (in billion
2004 and Prior	19.7%	21.4%	$
2005	27.8%	28.9%	
2006	27.6%	27.9%	
2007	35.8%	35.9%	
2008			
Total	**27.6%**	**28.5%**	**$**

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

4. Credit Derivatives (Continued)

The following tables present additional details about the Company's unrealized gain on credit derivati
vintage and asset type as of December 31, 2008:

Vintage	Original Subordination(2)	Current Subordination(2)	Net Pa Outstand (in billio
2004 and Prior	5.2%	12.9%	$
2005	24.4%	50.4%	
2006	16.4%	23.3%	
2007	16.4%	18.5%	
2008			
Total	**18.1%**	**27.5%**	**$ 2**

Asset Type	Original Subordination(2)	Current Subordination(2)	Net Pa Outstand (in billio
Alt-A loans	20.3%	23.3%	$
Prime first lien	10.3%	12.2%	
Subprime lien	26.9%	54.4%	
Total	**18.1%**	**27.5%**	**$ 2**

In general, the Company structures credit derivative transactions such that the circumstances giving ri
financial guaranty policies and generally occurs as losses are realized on the underlying reference obligatio
ISDA documentation and operate differently from financial guaranty insurance policies. For example, our
credit derivative may be more limited than when the Company issues a financial guaranty insurance policy
exposure under credit derivatives, like the Company's exposure under financial guaranty insurance policies
outstanding, unlike financial guaranty insurance policies, a credit derivative may be terminated for a breac
some older credit derivative transactions, one such specified event is the failure of AGC to maintain specif
credit derivative is terminated the Company could be required to make a mark-to-market payment as deter
rating were downgraded to A+, under market conditions at December 31, 2008, if the counterparties exerci
would have been required to make payments that the Company estimates to be approximately $261 millio
"BBB+" and "BB+" it would have been required to make additional payments that the Company estimates

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

4. Credit Derivatives (Continued)

Under a limited number of credit derivative contracts, the Company is required to post eligible securit securities. The need to post collateral under these transactions is generally based on mark-to-market valuat thresholds decline if the Company's ratings decline. As of December 31, 2008 the Company had pre-IPO tr collateral posting due to changes in market value. Of this amount, as of December 31, 2008, the Company (including $134.2 million for AGC) based on the unrealized mark-to-market loss position for transactions posted as collateral in the future will depend on changes in the market values of these transactions. Additio contractual thresholds would be eliminated and the amount of par that could be subject to collateral postin as of December 31, 2008, such a downgrade would have resulted in AGC posting an additional $88.7 milli required or anticipated for any other transactions.

As of December 31, 2008 and December 31, 2007, the Company considered the impact of its own cre assumes through CDS contracts, in determining the fair value of its credit derivatives. The Company deter on the Company at each balance sheet date. The quoted price of CDS contracts traded on AGC at Decemb and 180 basis points, respectively. Historically, the price of CDS traded on AGC moves directionally the s CDS prices traded on AGC has an effect of offsetting unrealized losses that result from widening general m traded on AGC has an effect of offsetting unrealized gains that result from narrowing general market credi an unrealized gain on credit derivatives for the Company and an overall widening of spreads generally resu 2008, the values of our CDS contracts before and after considering implications of our credit spreads were December 31, 2007 the effect of our own credit was not significant. As noted above, our own credit spread 1,775 basis points at December 31, 2008. As such, the impact of our own credit spread significantly affect

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4. Credit Derivatives (Continued)

The following table summarizes the estimated change in fair values on the net balance of the Compan
shifts in credit spreads at December 31, 2008:

(Dollars in millions)

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax)
December 31, 2008:	
100% widening in spreads	$ (1,538.3)
50% widening in spreads	(1,044.0)
25% widening in spreads	(793.5)
10% widening in spreads	(642.2)
Base Scenario	(539.2)
10% narrowing in spreads	(454.4)
25% narrowing in spreads	(326.7)
50% narrowing in spreads	(118.4)

(1) Includes the effects of spreads on both the underlying asset classes and the C

The Company had no derivatives that were designated as hedges, except as described in Note 18. Lon

5. Fair Value of Financial Instruments

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

	As of December 31, 2008	
	Carrying Amount	Estimated Fair Valu
	(in thousan	
Assets:		
Fixed maturity securities	$3,154,137	$3,154,13
Cash and short-term investments	489,502	489,50
Credit derivative assets	146,959	146,95
Liabilities:		
Unearned premium reserves	1,233,714	1,785,76
Long-term debt:		
Senior Notes	197,443	106,56
Series A Enhanced Junior Subordinated Debentures	149,767	37,50
Credit derivative liabilities	733,766	733,76
Off-Balance Sheet Instruments:		
Future installment premiums		463,40

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5. Fair Value of Financial Instruments (Continued)

Background

Effective January 1, 2008, the Company adopted FAS 157. FAS 157 defines fair value, establishes a f
about fair value measurements. FAS 157 applies to other accounting pronouncements that require or permi
value measurements.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liab
participants on the measurement date. The price shall represent that available in the principal market for th
price is based on the market that maximizes the value received for an asset or minimizes the amount paid f

FAS 157 specifies a fair value hierarchy based on whether the inputs to valuation techniques used to m
Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflec
with FAS 157, the fair value hierarchy prioritizes model inputs into three broad levels as follows:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for ider
observable inputs other than quoted prices, such as interest rates or yield curves and ot
inputs.

Level 3 Model derived valuations in which one or more significant inputs or significa
use of observable market data when available.

An asset or liability's categorization within the fair value hierarchy is based on the lowest level of sig

Effect on the Company's financial statements

FAS 157 applies to both amounts recorded in the Company's financial statements and to disclosures. A
statements on a recurring basis are fixed maturity securities available for sale, short-term investments, cred

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

5. Fair Value of Financial Instruments (Continued)

liabilities relating to the Company's CDS contracts and CCS Securities. The fair value of these items as of

(Dollars in millions)	Fair Value	Fair Valu Quoted Prices in Active Markets for Identical Assets (Level 1)	S Ol
Assets			
Fixed maturity securities	$ 3,154.1	$	
Short-term investments	477.2	47.8	
Credit derivative assets	147.0		
CCS Securities	51.1		
Total assets	$ 3,829.4	$ 47.8	
Liabilities			
Credit derivative liabilities	$ 733.8	$	
Total liabilities	$ 733.8	$	

Fixed Maturity Securities and Short-term Investments

The fair value of fixed maturity securities and short-term investments is determined using one of thre or broker-dealer quotations. Pricing services for each sector of the market are determined based upon the p

Typical inputs used by these three pricing methods include, but are not limited to, reported trades, ber cash flows and prepayments speeds. Based on the typical trading volumes and the lack of quoted market pr normally derive the security prices through recent reported trades for identical or similar securities making market observable information as outlined above. If there are no recent reported trades, the third party pric to develop a security price where future cash flow expectations are developed based upon collateral perfor the pricing of asset backed securities are estimates of the rate of future prepayments of principal over the re based on the characteristics of the underlying structure and prepayment speeds previously experienced at th The Company does not make any internal adjustments to prices provided by its third party pricing service.

The Company has analyzed the third party pricing services' valuation methodologies and related inpu investment portfolio to determine an appropriate FAS 157 fair value hierarchy level based upon trading act evaluation, each price was classified as Level 1, 2 or 3. Prices provided by third party pricing services with the money fund

5. Fair Value of Financial Instruments (Continued)

portion of short-term investments are classified as Level 1. No investments were classified as Level 3 as of

Committed Capital Securities ("CCS Securities")

The fair value of CCS Securities represents the present value of remaining expected put option premiu value of such estimated payments based upon the quoted price for such premium payments as of Decembe for CCS Securities is included in the consolidated balance sheet. Changes in fair value of this asset are incl operations and comprehensive income. The significant market inputs used are observable, therefore, the C

Level 3 Valuation Techniques

Financial instruments are considered Level 3 when their values are determined using pricing models, and at least one significant model assumption or input is unobservable. Level 3 financial instruments also i requires significant management judgment or estimation. A brief description of the valuation techniques us

Credit Derivatives

The Company's credit derivatives consist of insured CDS contracts (see Note 4). As discussed in Note contracts, and there are no quoted prices for its instruments or for similar instruments. Observable inputs o reflect contracts that do not contain terms and conditions similar to the credit derivative contracts issued by contracts requires the use of models that contain significant, unobservable inputs. Thus, we believe the cre hierarchy discussed above.

The fair value of the Company's credit derivative contracts represents the difference between the pres receives for the credit protection and the estimated present value of premiums that a comparable financial g same protection at the balance sheet date. The fair value of the Company's credit derivatives depends on a expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Compa Contractual cash flows, which are included in the "Realized gains and other settlements on credit derivativ readily observable variables of the fair value of credit derivative contracts since they are based on contract and receivable on written credit derivative contracts, (ii) net premiums paid and payable on purchased con contract counterparties and (iv) losses recovered and recoverable on purchased contracts. The remaining k (losses) on credit derivatives".

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December 31, 2008, 2007 and 2006

5. Fair Value of Financial Instruments (Continued)

Market conditions at December 31, 2008 were such that market prices of the Company's CDS contrac available, the Company used a combination of observable market data and valuation models, using various risk, and estimated contractual payments to estimate the "Unrealized gains (losses) on credit derivatives" p are primarily developed internally based on market conventions for similar transactions.

Management considers the non-standard terms of its credit derivative contracts in determining the fai derivatives sold by companies outside the financial guaranty industry. The non-standard terms include the settlement provisions, relatively high attachment points and the fact that the Company does not exit deriva specific circumstances such as exiting a line of business. Because of these terms and conditions, the fair va same prices observed in an actively traded market of credit derivatives that do not contain terms and condi market. These models and the related assumptions are continuously reevaluated by management and enhan techniques and availability of more timely market information.

Valuation models include the use of management estimates and current market information. Managem value of credit derivative instruments is affected by current market conditions. Management considers fact performance of underlying assets, life of the instrument, and the extent of credit derivative exposure the C and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that manage due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models products, actual experience may differ from the estimates reflected in the Company's consolidated financia

Listed below are various inputs and assumptions that are key to the establishment of our fair value fo

Assumptions

The key assumptions of our internally developed model include:

Gross spread is the difference between the yield of a security paid by an issuer on an i transaction, the difference between the yield and an index such as LIBOR. Such pricin relative to capital market spreads as observed and executed in competitive markets, inc market transactions.

Gross spread on a financial guarantee written in CDS form gets allocated among 1) pr putting the deal together and funding the transaction, 2) premiums paid to us for our c

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

5. Fair Value of Financial Instruments (Continued)

protection purchased on us by the originator to hedge their counterparty credit risk exp
referred to as the net spread. The Company's own credit risk is factored into the determ
quoted market price for credit protection bought on the Company, as reflected by quot
The cost to acquire CDS protection sold on AGC affects the amount of spread on CDS
As the cost to acquire CDS protection sold on AGC increases the amount of premium
acquire CDS protection sold on AGC decreases the amount of premium we capture on
capture is not permitted to go below the historic minimum rate charged by us to assum
unrealized gains that are recognized on certain CDS contracts.

The Company determines the fair value of its CDS contracts by applying the net sprea
value of its CDS contracts.

Actual transactions are used to validate the model results and to explain the correlation
prices.

Inputs

The specific model inputs are listed below, including how we derive inputs for market credit spreads

Gross spread This is an input into the Company's fair value model that is used to ultim
guarantor would charge the Company to transfer risk at the reporting date. The Compa
the estimated present value of premiums that a comparable financial guarantor would a
reporting date, on terms identical to the original contracts written by the Company and
derivative contract. This is an observable input that the Company obtains for deals it h

Credit spreads on risks assumed These are obtained from market data sources publish
similar to assets within our transactions) as well as collateral-specific spreads provided
market credit spreads are not available or reliable for the underlying reference obligati
the underlying reference obligations, considering asset class, credit quality rating and r
previously, these indices are adjusted to reflect the non-standard terms of the Company
obtained approximately 22% of its credit spread data, based on notional par outstandin
obtained from market sources or similar market indices. Market sources determine cre
asset classes and receiving price quotes from their trading desks for the specific asset i
cross-referencing quotes received from one

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

5. Fair Value of Financial Instruments (Continued)

market source against quotes received from another market source to ensure reasonabl
quotes received from one quarter to another, with the relative change experienced by p
specific spreads obtained from third-party, independent market sources are un-publish
traders whom are not trustees. Management obtains this information as the result of di
process.

Credit spreads on the Company's name   The Company obtains the quoted price of CD
by third parties.

The following is an example of how changes in gross spreads, the Company's own credit spread and t
of premium the Company can demand for its credit protection. Scenario 1 represents the market conditions
market conditions at a subsequent reporting date.

	Scenario 1	
	bps	% of Total
Original Gross Spread / Cash Bond Price (in Bps)	**185.0**	
Bask Profit (in Bps)	**115.0**	62
Hedge Cost (in Bps)	**30.0**	16
AGC Premium Received Per Annum (in Bps)	**40.0**	22

In Scenario 1, the gross spread is 185bps. The bank or deal originator captures 115bps of the original
the CDS spread on AGC was 300bps (300bps × 10% = 30bps). Under this scenario AGC received premiu

In Scenario 2, the gross spread is 500bps. The bank or deal originator captures 50bps of the original g
the CDS spread on AGC was 1,760bps (1,760bps × 25% = 440bps). Under this scenario AGC would recei

In this example, the contractual cash flows exceed the amount a market participant would require AG
credit default swap contract, thus resulting in an asset. This credit derivative asset is equal to the difference
weighted average remaining life of the contract. The expected future cash flows for the Company's credit
17.0% over LIBOR at December 31, 2008, with over 97% of the transactions ranging from 1.0% to 6.0%

The Company corroborates the assumptions in its fair value model, including the amount of exposure
independent third parties each reporting period. Recent increases in the CDS spread on AGC have resulted

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December 31, 2008, 2007 and 2006

5. Fair Value of Financial Instruments (Continued)

hedging a greater portion of its exposure to AGC. This has the effect of reducing the amount of contractual

The amount of premium a financial guaranty insurance market participant can demand is inversely rel as measured by market credit spreads. This is because the buyers of credit protection typically hedge a por contractual terms of financial guaranty insurance contracts typically do not require the posting of collateral own credit spread increases the cost to buy credit protection on the guarantor, thereby, reducing the amoun spread on the deal. The extent of the hedge depends on the types of instruments insured and the current ma

A credit derivative asset under FAS 157 is the result of contractual cash flows on in-force deals in exc if it sold protection on the same risk as of the current reporting date. If the Company were able to freely ex contain proscriptions on transfer and there was a viable exchange market), it would be able to realize an as premiums to which it's entitled and the current market premiums for a similar contract.

To clarify, management does not believe there is an established market where financial guaranty insur protection under an insured financial guaranty credit derivative do not, except for certain rare circumstance determined that the exit market for the Company's credit derivatives is a hypothetical one based on its entr the Company's deals to establish historical price points in the hypothetical market that are used in the fair v

The following spread hierarchy is utilized in determining which source of spread to use, with the rule the Company either interpolates or extrapolates CDS spreads based on similar transactions or market indic

1. Actual collateral specific credit spreads (if up-to-date and reliable market-based spread

2. Credit spreads are interpolated based upon market indices or deals priced or closed dur rating.

3. Credit spreads provided by the counterparty of the credit default swap.

4. Credit spreads are extrapolated based upon transactions of similar asset classes, similar

Over time the data inputs can change as new sources become available or existing sources are discont It is the Company's objective to move to higher levels on the hierarchy whenever possible, but it is sometin discontinued data sources or assessments that the higher priority inputs are no longer considered to be repr This can

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5. Fair Value of Financial Instruments (Continued)

happen, for example, if transaction volume changes such that a previously used spread index is no longer v

As of December 31, 2008, the Company obtained approximately 8% of its credit spread information, specific credit spreads, while 78% was based on market indices and 14% was based on spreads provided b based on the historical relationship between premium the Company receives when a financial guarantee wr market index related to the specific asset class and rating of the deal. This curve indicates expected credit s For specific transactions where no price quotes are available and credit spreads need to be extrapolated, an spread quote from one of the first three sources within the Company's spread hierarchy is chosen. This alte similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates for the alternative transaction. This percentage change is then applied to the historical credit spread of the t calculate the transactions current spread. Counterparties determine credit spreads by reviewing new issuan from their trading desks for the specific asset in question. These quotes are validated by cross-referencing received from another market source to ensure reasonableness. In addition, management compares the rela specific asset class for reasonableness and accuracy.

The Company's credit derivative valuation model, like any financial model, has certain strengths and

The primary strengths of the Company's CDS modeling techniques are:

- The model takes account of transaction structure and the key drivers of market value. T average life, level of subordination and composition of collateral.

- The model maximizes the use of market-driven inputs whenever they are available. Th collateral, and the credit rating of referenced entities. These are viewed by us to be the

- The Company is able to use actual transactions to validate its model results and to expl indicative CDS market prices.

- The model is a well-documented, consistent approach to valuing positions that minimi market-based spread inputs that helps mitigate the degree of subjectivity during period

The primary weaknesses of the Company's CDS modeling techniques are:

- There is no exit market or actual exit transactions. Thus our exit market is a hypothetic

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5. Fair Value of Financial Instruments (Continued)

There is a very limited market in which to verify the fair values developed by the Com

At December 31, 2008, the markets for the inputs to the model were highly illiquid, wh various procedures to corroborate the reasonableness of quotes received and calculated other quotes received on similarly structured transactions, observed spreads on structur selective basis when possible, through second independent quotes on the same referenc

Due to the non-standard terms under which the Company enters into derivative contrac same prices observed in an actively traded market of credit derivatives that do not cont financial guaranty market.

As discussed above, the Company does not trade or exit its credit derivative contracts in the normal co is limited by the absence of actual exit transactions. However, management does compare modeled results compare modeled values to premiums on deals the Company received on new deals written within the repo particular asset type in the period or if the number of transactions is not reflective of a representative samp offered by the Company to provide credit protection on new transactions within the reporting period, the p to provide credit protection in net tight and wide credit environments and/or the premium on transactions c the reporting period.

The net par outstanding of the Company's credit derivative contracts was $75.1 billion and $71.6 billi respectively. The estimated remaining average life of these contracts at December 31, 2008 was 7.0 years.

As required by FAS 157, financial assets and liabilities are classified in their entirety based on the lov measurement. As of December 31, 2008, these contracts are classified as Level 3 in the FAS 157 hierarchy deemed significant to the valuation model, most significantly the Company's estimate of the value of the no contracts and of the Company's current credit standing.

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5. Fair Value of Financial Instruments (Continued)

The table below presents a reconciliation of the Company's credit derivatives whose fair value includ
ended December 31, 2008.

(Dollars in millions)	Year Decemb Fair Measurer Sign Unobserv (Le Credit I Liability
Beginning Balance	$
Total gains or losses realized and unrealized	
Unrealized gains on credit derivatives	
Realized gains and other settlements on credit derivatives	
Current period net effect of purchases, settlements and other activity included in unrealized portion of beginning balance	
Transfers in and/or out of Level 3	
Ending Balance	$
Gains and losses (realized and unrealized) included in earnings for the period are reported as follows:	
Total realized and unrealized gains included in earnings for the period	$
Change in unrealized gains on credit derivatives still held at the reporting date	$

Items in the Company's financial statements measured at fair value on a non-recurring basis and for d
senior notes, Series A enhanced junior subordinated debentures and future installment premiums. The fair
in the following table.

		Fair Value Measure	
(Dollars in millions)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant C Observable I (Level 2
Liabilities			
Unearned premium reserves	$ 1,785.8	$	$
Senior Notes	106.6		
Series A Enhanced Junior Subordinated Debentures	37.5		
Total liabilities	$ 1,929.9	$	$
Off-Balance Sheet Instruments			
Future installment premiums	$ 463.4	$	$

Unearned Premium Reserves

The fair value of the Company's unearned premium reserves is based on the estimated cost of entering
portfolio with third party reinsurers under current market conditions. This figure is based on management's
insurance company would demand to assume the Company's in-force book of financial guaranty insurance
we have

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December 31, 2008, 2007 and 2006

5. Fair Value of Financial Instruments (Continued)

observed in recent portfolio transfers that have occurred in the financial guaranty market and includes adju for stressed losses and ceding commissions. The significant inputs for stressed losses and ceding commissi classified this fair value measurement as Level 3.

Senior Notes and Series A Enhanced Junior Subordinated Debentures

The fair value of the Company's $200.0 million of Senior Notes and $150.0 million of Series A Enhar calculating the midpoint of quoted bid/ask prices over the U.S. Treasury yield at the year-end date and the significant market inputs used are observable, therefore, the Company classified this fair value measureme

Future Installment Premiums

The fair value of the Company's installment premiums is derived by calculating the present value of t installment premiums discounted at 6.0%. The significant inputs used to fair value this item are observable measurement as Level 2.

6. Statutory Accounting Practices

These consolidated financial statements are prepared on a GAAP basis, which differs in certain respec insurance regulatory authorities, including the Maryland Insurance Administration, the New York State Ins the Bermuda Monetary Authority.

The Company's U.S. domiciled insurance companies prepare statutory financial statements in accorda National Association of Insurance Commissioners ("NAIC") and their respective Insurance Departments. I NAIC Accounting Practices and Procedures Manual. There are no permitted accounting practices on a stat Company's U.S. domiciled insurance companies was $408.7 million and $430.5 million as of December 31 income of the Company's U.S. domiciled insurance companies was $27.6 million, $73.2 million and $66.0 2006, respectively.

AG Re, a Bermuda regulated Class 3 insurer and Long-Term insurer, prepares its statutory financial s forth in The Insurance Act 1978, amendments thereto and Related Regulations. The statutory capital and s as of December 31, 2008 and 2007, respectively. The statutory net income of AG Re was $2.4 million, $78 December 31, 2008, 2007 and 2006, respectively.

7. Insurance In Force

As of December 31, 2008 and 2007, net financial guaranty par in force, including insured CDS, was a The portfolio was broadly diversified by payment source, geographic location and maturity schedule, with total net par in force as of December 31, 2008 and 2007, respectively.

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December 31, 2008, 2007 and 2006

7. Insurance In Force (Continued)

The composition of net par in force by bond type was as follows:

U.S. public finance:
General obligation
Tax-backed
Municipal utilities
Transportation
Healthcare
Higher education
Investor-owned utilities
Housing
Other public finance
Total U.S. public finance
U.S. structured finance:
Pooled corporate obligations
Residential mortgage-backed and home equity
Commercial mortgage-backed securities
Consumer receivables
Commercial receivables
Structured credit
Insurance securitizations
Other structured finance
Total U.S. structured finance
International:
Infrastructure and pooled infrastructure
Pooled corporate obligations
Residential mortgage-backed and home equity
Regulated utilities
Commercial receivables
Public finance
Future flow
Insurance securitizations
Commercial mortgage-backed securities
Structured credit
Consumer receivables
Other international structured finance
Total international
Total exposures(1)

(1) Totals may not add due to rounding.

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Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

7. Insurance In Force (Continued)

Maturities for U.S. public finance obligations range from 1 to 44 years, with a weighted average life c maturities that range from 1 to 39 years with a weighted average life of 7 years. International finance trans with a weighted average life of 13 years. CDS transactions are included in all structured finance categories public finance.

The portfolio contained exposures in each of the 50 states and abroad. The distribution of net financia in the following table:

	As of December 31, 2008	
	Net par outstanding	% of Net pa outstanding
	(in billion	
Domestic:		
California	$ 16.2	7.
New York	9.5	4.
Florida	8.4	3.
Texas	7.3	3.
Illinois	5.9	2.
Pennsylvania	4.6	2.
Massachusetts	4.4	2.
New Jersey	4.2	1.
Michigan	3.1	1.
Washington	2.9	1.
Other states	40.8	18.
Mortgage and structured (multiple states)	74.4	33.
Total domestic exposures	181.7	81.
International:		
United Kingdom	23.7	10.
Germany	3.3	1.
Australia	2.6	1.
Ireland	0.9	0.
Turkey	0.8	0.
Other	9.6	4.
Total international exposures	41.0	18.
Total exposures(1)	$ 222.7	100.

(1) Totals may not add due to rounding.

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Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

7. Insurance In Force (Continued)

The following table sets forth the net financial guaranty par outstanding by underwriting rating:

	As of December 31, 2008	
Ratings(1)	**Net par outstanding**	**% of Net pa outstanding**
		(in billion
Super senior	$ 32.4	14.
AAA	40.7	18.
AA	47.7	21.
A	66.0	29.
BBB	29.4	13.
Below investment grade	6.6	3.
Total exposures(2)	$ 222.7	100.

(1) The Company's internal rating. The Company's scale is comparable to that of the nationally reco not generally used by rating agencies, is used by the Company in instances where the Company's to either (1) the existence of another security rated AAA that is subordinated to the Company's e different form of credit enhancement that would pay any claims first in the event that any of the management's opinion, causes the Company's attachment point to be materially above the AAA

(2) Totals may not add due to rounding.

As part of its financial guaranty business, the Company enters into CDS transactions whereby one par amount in return for a contingent payment by the other party in the event one or more defined credit events securities or loans. A credit event may be a nonpayment event such as a failure to pay, bankruptcy, or restr The total notional amount of insured CDS exposure outstanding as of December 31, 2008 and 2007 and in $75.1 billion and $71.6 billion, respectively.

As of December 31, 2008 and 2007, the Company's net mortgage guaranty insurance in force (represe currently reinsured) was approximately $0.4 billion and $1.1 billion, respectively, and net risk in force was These amounts are not included in the above table.

8. Premiums Earned from Refunded and Called Bonds

Net earned premiums include $61.9 million, $17.6 million and $11.2 million for 2008, 2007 and 2006 reflect the unscheduled pre-payment or refundings of underlying municipal bonds. The increase in 2008 co municipal auction rate and variable rate debt as reported by the Company's ceding companies. The 2008 ye financial

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8. Premiums Earned from Refunded and Called Bonds (Continued)

guaranty direct segment and $60.6 million of refundings in the financial guaranty reinsurance segment. Th
refundings in the financial guaranty direct segment and $14.8 million of refundings in the financial guaran
refundings in the financial guaranty direct segment in 2006. The unscheduled refundings included in net ea
guaranty reinsurance segment. These unscheduled refundings are sensitive to market interest rates and othe

9. Investments

The following table summarizes the Company's aggregate investment portfolio as of December 31, 20

	Amortized Cost	Gross Unrealiz Gains
		(in thousa
Fixed maturity securities		
U.S. government and agencies	$ 426,592	$ 49,3
Obligations of state and political subdivisions	1,235,942	33,1
Corporate securities	274,237	5,7
Mortgage-backed securities	1,081,879	21,7
Asset-backed securities	80,710	
Foreign government securities	50,323	4,1
Preferred stock	12,625	
Total fixed maturity securities	3,162,308	114,3
Short-term investments	477,197	
Total investments	$ 3,639,505	$ 114,3

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December 31, 2008, 2007 and 2006

9. Investments (Continued)

The following table summarizes the Company's aggregate investment portfolio as of December 31, 20

	Amortized Cost	Gross Unrealiz Gains
		(in thousa
Fixed maturity securities		
U.S. government and agencies	$ 297,445	$ 13,5
Obligations of state and political subdivisions	1,043,000	38,6
Corporate securities	179,369	4,7
Mortgage-backed securities	859,666	9,8
Asset-backed securities	68,148	3
Foreign government securities	71,386	1,6
Preferred stock	7,875	1
Total fixed maturity securities	2,526,889	69,0
Short-term investments	552,938	
Total investments	$ 3,079,827	$ 69,0

Approximately 29% and 28% of the Company's total investment portfolio as of December 31, 2008 a securities, including collateralized mortgage obligations and commercial mortgage-backed securities. As o approximately 69% and 55% of the Company's total mortgage-backed securities were government agency weighted average credit quality of the Company's entire investment portfolio was AA+ and AAA, respecti high-quality, liquid instruments. The Company continues to receive sufficient information to value its inve current market conditions.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities as of Decen Expected maturities will differ from contractual maturities because borrowers may have the right to call or penalties.

	Amortiz Cost
	(in thous
Due within one year	$ 28,
Due after one year through five years	357,
Due after five years through ten years	564,
Due after ten years	1,117,
Mortgage-backed securities	1,081,
Preferred stock	12,
Total	$ 3,162,

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

9. Investments (Continued)

Proceeds from the sale of available-for-sale fixed maturity securities were $532.1 million, $786.6 mil
2008, 2007 and 2006, respectively.

Net realized investment gains (losses) consisted of the following:

	For the Year
	2008
	(in thousa
Gains	$ 5,656
Losses	(4,189)
Other than temporary impairments	(71,268)
Net realized investment (losses) gains	$ (69,801)

The change in net unrealized gains (losses) of available-for-sale fixed maturity securities consists of:

	For
	2(
	(
Fixed maturity securities	$ (6
Less: Deferred income tax (benefit) expense	(2
Change in net unrealized (losses) gains on fixed maturity securities	$ (4

The following tables summarize, for all securities in an unrealized loss position as of December 31, 2
loss by length of time the amounts have continuously been in an unrealized loss position.

	As of Decembe			
	Less than 12 months		12 months o	
	Fair value	Unrealized loss	Fair value	Un
	(in millions of U			
U.S. government and agencies	$ 8.0	$	$	$
Obligations of state and political subdivisions	479.4	(28.7)	137.9	
Corporate securities	105.6	(10.2)	14.2	
Mortgage-backed securities	181.4	(44.5)	74.4	
Asset-backed securities	73.2	(7.2)		
Foreign government securities				
Preferred stock	12.4	(0.3)		
Total	$ 860.0	$ (90.9)	$ 226.5	$

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

9. Investments (Continued)

	As of Decembe			
	Less than 12 months		12 months o	
	Fair value	Unrealized loss	Fair value	Ur
	(in millions of U			
U.S. government and agencies	$ 25.4	$	$	$
Obligations of state and political subdivisions	190.2	(2.5)	8.6	
Corporate securities	33.2	(1.1)	12.8	
Mortgage-backed securities	64.6	(0.7)	234.3	
Asset-backed securities	5.1		20.1	
Foreign government securities	2.6			
Preferred stock				
Total	$321.1	$ (4.3)	$275.8	$

The above unrealized loss balances are comprised of 218 and 161 fixed maturity securities as of Dece considered factors such as sector credit ratings and industry analyst reports in evaluating the above securiti gross unrealized loss position stood at $122.5 million compared to $8.9 million at December 31, 2007. The primarily attributable to mortgage and asset-backed securities, $54.3 million, municipal securities, $48.6 m these unrealized losses during the year ended December 31, 2008 was related to the overall illiquidity in th depressed demand for non-cash investments.

As of December 31, 2008, the Company had 58 securities in an unrealized loss position for greater th $31.6 million. Of these securities, 20 securities had unrealized losses greater than 10% of book value. The 2008 was $24.1 million. This unrealized loss is primarily attributable to the market illiquidity and volatility individual issuer credit. Except as noted below, the Company has recognized no other than temporary impa securities until a recovery in value.

The Company recognized $71.3 million of other than temporary impairment losses substantially relat ended December 31, 2008 primarily due to the fact that it does not have the intent to hold these securities u continues to monitor the value of these investments. Future events may result in further impairment of the investments for other than temporary impairment losses for the years ended December 31, 2007 and 2006.

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

9. Investments (Continued)

Net investment income is derived from the following sources:

	For the Years E	
	2008	
	(in thousand	
Income from fixed maturity securities	$154,467	$1
Income from short-term investments	11,578	
Gross investment income	166,045	1
Less: investment expenses	(3,487)	
Net investment income	$162,558	$1

Under agreements with its cedants and in accordance with statutory requirements, the Company main $1,233.4 million and $936.0 million as of December 31, 2008 and 2007, respectively, for the benefit of rei generally in states in which the Company or its subsidiaries, as applicable, are not licensed or accredited.

Under certain derivative contracts, the Company is required to post eligible securities as collateral, ge need to post collateral under these transactions is generally based on mark-to-market valuation in excess of Company's pledged securities totaled $157.7 million and $0.4 million as of December 31, 2008 and 2007,

The Company is not exposed to significant concentrations of credit risk within its investment portfoli

No material investments of the Company were non-income producing for the years ended December

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

10. Reserves for Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending balances of reserves for los
reclassified as discussed in Note 2):

	For th
	2008
	(in
Balance as of January 1	$ 125,5
Less reinsurance recoverable	(8,8
Net balance as of January 1	116,7
Transfers to case reserves from portfolio reserves	69,3
Incurred losses and loss adjustment expenses pertaining to case and IBNR reserves:	
Current year	163,1
Prior years	111,1
	274,3
Transfers to case reserves from portfolio reserves	(69,3
Incurred losses and loss adjustment expenses pertaining to portfolio reserves	(8,6
Total losses and loss adjustment expenses	265,7
Loss and loss adjustment expenses (paid) and recovered pertaining to:	
Current year	(90,3
Prior years	(169,0
Total loss and loss adjustment expenses (paid) recovered	(259,4
Change in salvage recoverable, net	67,4
Foreign exchange (gain) loss on reserves	(2
Net balance as of December 31	190,2
Plus reinsurance recoverable	6,5
Balance as of December 31	$ 196,7

The difference between the portfolio reserve transferred to case reserves and the ultimate case reserve

The financial guaranty case basis reserves have been discounted using the taxable equivalent yield on
2007 and 2006, resulting in a discount of $(8.7) million, $3.9 million and $9.6 million, respectively.

The unfavorable current and prior year development in 2008 of is primarily due to incurred losses rela
related exposures. Additionally, during 2008 case reserves were established for two public finance transact
further detail).

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

10. Reserves for Losses and Loss Adjustment Expenses (Continued)

The favorable prior year development in 2007 of $17.7 million is primarily due to $8.6 million of loss
$4.3 million increase in salvage reserves for aircraft related transactions, reported to us by our cedant. The

Losses and loss adjustment expenses paid (received), were $259.4 million, $(4.7) million and $11.4 m
2007 and 2006. The loss payments of $259.4 million in 2008 are related to several HELOC and Closed-En
significant deterioration during the year. The loss recovery of $4.7 million in 2007 was mainly a result of l
transactions in which claims were paid in 2002 and 2006. These recoveries were partially offset by loss pa
exposures. The loss payments of $11.4 million in 2006 were related to a U.S. Infrastructure transaction and

11. Significant Risk Management Activities

The Risk Oversight and Audit Committees of the Board of Directors oversees our risk management p
board committees, specific risk policies and limits are set by the Portfolio Risk Management Committee, w
Credit and Surveillance officers. As part of its risk management strategy, the Company may seek to obtain
periodically enter into other arrangements to alleviate all or a portion of this risk.

Risk Management and Surveillance personnel are responsible for monitoring and reporting on all tran
the Direct and Reinsurance segments. The primary objective of the surveillance process is to monitor trend
deterioration in credit quality, and take such remedial actions as may be necessary or appropriate. All trans
personnel are responsible for adjusting those ratings to reflect changes in transaction credit quality. Surveil
and loss situations when necessary. For transactions where a loss is considered probable, surveillance perso
Reserve Committee. The Reserve Committee is made up of the Chief Executive Officer, Chief Financial O
Accounting Officer. The Reserve Committee considers the recommendations of the surveillance personnel
subsidiaries.

Direct Businesses

We conduct surveillance procedures to track risk aggregations and monitor performance of each risk.
and credit quality. In general, the review process includes the collection and analysis of information from v
financial statements and reports, general industry or sector news and analyses, and rating agency reports. F
monitoring general economic trends, developments with respect to state and municipal finances, and the fi
transactions, the surveillance process can include monitoring transaction performance data and cash flows,

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

11. Significant Risk Management Activities (Continued)

conditions, and evaluation of servicer or collateral manager performance and financial condition. Addition to assess transaction performance and identify situations where there may have been a change in credit qua discussions with or site visits to issuers, servicers or other parties to a transaction.

Reinsurance Businesses

For transactions in the Company's Reinsurance segment, the primary insurers are responsible for conc monitor the activities of the primary insurers through a variety of means, such as review of surveillance rep discussions with their analysts. Our surveillance personnel take steps to ensure that the primary insurer is r reinsurance agreement. To this end, we conduct periodic reviews of ceding companies' surveillance activit the primary insurer's underwriting, surveillance, and claim files for certain transactions. In the event of cre reviews of the ceding company's risk mitigation activities are conducted. Our surveillance personnel also r rating agency reports to help focus surveillance activities on sectors or credits of particular concern. For ce analysis and remodeling of the transaction.

Closely Monitored Credits

The Company's surveillance department is responsible for monitoring our portfolio of credits and mai closely monitored credits are divided into four categories:

Category 1 (low priority; fundamentally sound, greater than normal risk);

Category 2 (medium priority; weakening credit profile, may result in loss);

Category 3 (high priority; claim/default probable, case reserve established);

Category 4 (claim paid, case reserve established for future payments).

The closely monitored credits include all below investment grade ("BIG") exposures where there is a $10.0 million) or a material risk of the Company incurring a loss greater than $0.5 million. The closely mo where credit quality is deteriorating and where, in the view of the Company, there is significant potential t December 31, 2008, the closely monitored credits include approximately 99% of our BIG exposure, and th across 89 different credits. Other than those excluded BIG credits, credits that are not included in the close sound risks.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

11. Significant Risk Management Activities (Continued)

The following table provides financial guaranty net par outstanding by credit monitoring category as o

	Closely Monitored Cred		
	Category 1	**Category 2**	**Cate**
Number of policies	53	33	
Remaining weighted-average contract period (in years)	15.8	17.3	
Insured contractual payments outstanding:			
Principal	$1,101.9	$ 670.9	$ 2
Interest	836.5	308.7	
Total	$1,938.4	$ 979.6	$ 3
Gross reserves for loss and loss adjustment expenses	$ 0.2	$ 1.2	$
Less:			
Gross potential recoveries			
Discount, net			
Net reserves for loss and loss adjustment expenses	$ 0.2	$ 1.2	$
Reinsurance recoverable	$	$	$

The Company's loss adjustment expenses for mitigating claim liabilities were $1.6 million for the yea

In accordance with FAS 163, the above table includes financial guaranty contracts written in insuranc written in CDS form, mortgage guaranty insurance or the Company's other lines of insurance.

The Company insures various types of residential mortgage-backed securitizations ("RMBS"). Such t first mortgage loans and closed and open-end second mortgage loans or home equity loans on one-to-four cooperative apartments. An RMBS transaction where the underlying collateral is comprised of revolving h "HELOC" transaction. In general, the collateral supporting HELOC securitizations are second lien loans m Company had net par outstanding of $1.7 billion related to HELOC securitizations, of which $1.2 billion w segment. As of December 31, 2008, the Company had net par outstanding of $1.5 billion for transactions w Company's financial guaranty direct segment ("direct Countrywide transactions" or "Countrywide 2005-J" Company had net par outstanding of $2.4 billion related to HELOC securitizations, of which $2.1 billion w

The performance of our HELOC exposures deteriorated during 2007 and 2008 and transactions, partic 2007, continue to perform below our

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

11. Significant Risk Management Activities (Continued)

original underwriting expectations. In accordance with its standard practice, during the year ended Decemb
information, including trends in delinquencies and charge-offs on the underlying loans, draw rates on the l
obligations including its obligation to fund additional draws. The key assumptions used in our analysis of p
transactions are presented in the following table:

Key Variables

Constant payment rate (CPR)	3-month average, 7 8% as of December 31, 2008
Constant default rate (CDR)	6-month average CDR of approximately 19 21% during months 1-9, declining to 1.0% at the end of month 15. From months 16 onward, a 1.0% CDR is assumed.
Draw rate	3-month average, 1 2% as of December 31, 2008
Excess spread	250 bps per annum
Repurchases of Ineligible loans by Countrywide	$49.3 million; or approximately 2.1% of original pool balance of $2.4 billion
Loss Severity	100%

In recent periods, CDR, CPR, Draw Rates and delinquency percentages have fluctuated within ranges
project future performance. Accordingly, the Company is using modeling assumptions that are based upon
project future performance and potential losses. During 2008, the Company extended the time frame durin
also revised its assumptions with respect to the overall shape of the default and loss curves. Among other t
projected defaults will occur over the near term. This revision was based upon management's judgment tha
economic conditions could lead to a longer period in which default rates remain high. The Company contin
variety of CDR rates and stress periods as well as other modeling approaches including roll rates and hybri

As a result of this modeling and analysis, the Company incurred loss and loss adjustment expenses of
2008. The Company's cumulative incurred loss and loss adjustment expenses on the direct Countrywide tra
($87.2 million after-tax). During 2008, the Company paid losses and loss adjustment expenses for its direc
expect to recover $59.0 million from the receipt of excess spread from future cash flows as well as funding
"salvage recoverable" on the balance sheet.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

11. Significant Risk Management Activities (Continued)

There were no incurred loss and loss adjustment expenses or salvage recoverable amounts on these transac

For the year ended December 31, 2008, the Company incurred loss and loss adjustment expenses of $
$130.0 million related to the Company's financial guaranty direct segment, including $111.0 million of inc
Countrywide transactions. The remaining $38.1 million of incurred loss and loss adjustment expenses relat
financial guaranty reinsurance segment.

The ultimate performance of the Company's HELOC transactions will depend on many factors, such a
generated by the securitized loans, repayment speeds and changes in home prices, as well as the levels of c
may have a material impact upon the ultimate performance of each transaction, including the ability of the
including its obligation to fund future draws on lines of credit, as well as the amount of benefit received fro
variables affecting transaction performance are interrelated, difficult to predict and subject to considerable
assumptions, the losses incurred could be materially different from our estimate. We continue to update ou
available.

A summary of the Company's exposure to these two deals and their actual performance statistics thro

($ in millions)	Country 2005
Original principal balance	$
Remaining principal balance	$
Cumulative losses (% of original principal balance)(1)	
Total delinquencies (% of current balance)(2)	
Average initial FICO score of borrowers(3)	
Interest margin over prime(4)	
Revolving period(5)	
Repayment period(6)	
Average draw rate(7)	
Average constant payment rate(8)	
Excess spread(9)	

(1) Cumulative collateral losses expressed as a percentage of the original deal balance.

(2) Total delinquencies (loans >30 days past due) as a percentage of the current deal balance.

(3) Fair Isaacs and Company score is a measurement designed to indicate the credit quality of a borr

(4) Floating rate charged to borrowers above the prime rate.

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December 31, 2008, 2007 and 2006

11. Significant Risk Management Activities (Continued)

(5) Time period (usually 5 10 years) in which the borrower may draw funds from their HELOC.

(6) Time period (usually 10 20 years) in which the borrower must repay the funds withdrawn from

(7) Represents the three-month average draw rate as of December 2008.

(8) Represents the three-month average constant payment rate as of December 2008.

(9) Excess spread during December 2008.

Another type of RMBS transaction is generally referred to as "Subprime RMBS". The collateral supp mortgage loans made to subprime borrowers. A "subprime borrower" is one considered to be a higher risk of December 31, 2008, we had net par outstanding of $6.6 billion related to Subprime RMBS securitizatio Investment Grade risk. Of the total U.S. Subprime RMBS exposure of $6.6 billion, $6.1 billion is from tra written in our direct financial guaranty segment. As of December 31, 2008, we had portfolio reserves of $8 $6.6 billion U.S. Subprime RMBS exposure, of which $6.9 million were portfolio reserves related to our $ for transactions issued from 2005 through 2007.

The problems affecting the subprime mortgage market have been widely reported, with rising delinqu performance of Subprime RMBS transactions. Those concerns relate primarily to Subprime RMBS issued exposure that we have to such transactions in our direct financial guaranty segment benefits from various s average currently equals approximately 54.3% of the remaining principal balance of the transactions.

We also have exposure of $433.1 million to Closed-End Second ("CES") RMBS transactions, of whic of RMBS, we have seen significant deterioration in the performance of our CES transactions. On two trans we have seen a significant increase in delinquencies and collateral losses, which resulted in erosion of the totaling $16.2 million. Based on the Company's analysis of these transaction and their projected collateral December 31, 2008. Additionally, as of December 31, 2008, the Company had portfolio reserves of $0.1 m portfolio reserves in its financial guaranty reinsurance segment related to its U.S. Closed-End Second RM

Another type of RMBS transaction is generally referred to as "Alt-A RMBS". The collateral supporti mortgage loans made to prime quality borrowers that lack certain ancillary characteristics that would make ARMs, which include transactions where 66% or more of the collateral is comprised of mortgage loans tha December 31, 2008, the Company had net par outstanding of $7.6 billion related to Alt-A RMBS securitiz in the period from 2005 through 2007 and written in

11. Significant Risk Management Activities (Continued)

the Company's financial guaranty direct segment. As of December 31, 2008, the Company had portfolio re related to its $7.6 billion Alt-A RMBS exposure, in the financial guaranty direct and reinsurance segments

The ultimate performance of the Company's RMBS transactions remains highly uncertain and may be many factors, including the level and timing of loan defaults, changes in housing prices and other variables its RMBS exposures and will adjust the risk ratings of those transactions based on actual performance and

The Company has exposure on two life insurance reserve securitization transactions based on two dis Scottish Re (U.S.) Inc. ("Scottish Re"). The two transactions relate to Ballantyne Re p.l.c. ("Ballantyne") (("Orkney II") (gross exposure of $423 million). Under both transactions, monies raised through the issuanc statutory life insurance reserve requirements. The monies were invested at inception of each transaction in manager. However, those investment accounts have incurred substantial mark-to-market losses since mid-y subprime and Alt-A RMBS transactions. Largely as a result of these mark-to-market losses both we and th Ballantyne and Orkney II to below investment grade. As regards the Ballantyne transaction, the Company exposure of $900 million, to remediate the risk. On the Orkney Re II transaction, the Company, as directin

Some credit losses have been realized on the securities in the Ballantyne and Orkney Re II portfolios Performance of the underlying blocks of life insurance business thus far generally has been in accordance investment accounts and the treaty settlements currently is sufficient to cover interest payments due on the rise in credit losses on the invested assets are expected to lead to interest shortfalls. Additionally, the transa invested assets, reserve funding requirements on the underlying blocks of life insurance business, and mini that may trigger a shut off of interest payments to the insured notes and thereby result in claim payments b

Another key risk is that the occurrence of certain events may result in a situation where either Ballant potentially realize substantial investment losses and for Assured Guaranty Ltd. to incur corresponding insu example, cedants to Scottish Re may have the right to recapture blocks of life insurance business which Sc require Orkney Re II to sell assets and realize investment losses. In the Ballantyne transaction, further decl increase in the reserve funding requirements could lead to a similar mandatory realization of investment lo insured losses ahead of the scheduled final maturity date.

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

11. Significant Risk Management Activities (Continued)

In order for the Company to incur an ultimate net loss on these transactions, adverse experience on th losses in the investment portfolio would need to exceed the level of credit enhancement built into the trans currently available, including estimates of future investment performance, projected credit impairments on insurance business, at December 31, 2008, the Company established a case reserve of $17.2 million for the case loss reserve for the Orkney Re II transaction.

On December 19, 2008, the Company sued J.P. Morgan Investment Management Inc. ("JPMIM"), the York Supreme Court alleging that JPMIM engaged in breaches of fiduciary duty, gross negligence and bre of Orkney Re II. JPMIM requested and was given an extension of time to answer until the end of February

The Company has exposure to a public finance transaction for sewer service in Jefferson County, Ala total exposure to this transaction is approximately $456 million as of December 31, 2008. The Company h make additional payments in the near term. Through our cedants, the Company is currently in discussions in some or all of these payments being recoverable. A case reserve of $6.0 million has been established as

12. Income Taxes

The Company and its Bermuda Subsidiaries are not subject to any income, withholding or capital gai received an assurance from the Minister of Finance in Bermuda that, in the event of any taxes being impos exempt from taxation in Bermuda until March 28, 2016.

The Company's U.S. subsidiaries are subject to income taxes imposed by U.S. authorities and file U.S

Prior to the IPO in April 2004, Assured Guaranty US Holdings Inc. ("AGUS"), Assured Guaranty Co an AGC subsidiary prior to its merger into AGC in December 2006, AG Financial Products Inc. ("AGFP") U.S. income tax returns in the consolidated U.S. tax return of its former shareholder. For periods after Apr merger into AGC in December 2006), AGFP and AFP (for the period ended May 18, 2005) file a consolid US Holdings Inc. ("AGOUS") and its subsidiaries, Assured Guaranty Re Overseas Ltd. ("AGRO"), Assure Intermediary Inc., have historically filed a consolidated federal income tax return. AGRO, a Bermuda dom Internal Revenue Code to be taxed as a U.S. domestic corporation. Each company, as a member of its resp proportionate share of the consolidated federal tax burden

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

12. Income Taxes (Continued)

for its group as if each company filed on a separate return basis with current period credit for net losses.

The following table provides the Company's income tax (benefit) provision and effective tax rates:

	For the Years	
	2008	
	(in thousan	
Current tax (benefit) provision	$ 332	$
Deferred tax provision (benefit)	43,116	(
Provision (benefit) for income taxes	$43,448	$(
Effective tax rate	38.7%	

The change in the effective tax rate from year to year is primarily due changes in the proportion of pr statutory rates.

Reconciliation of the difference between the provision for income taxes and the expected tax provisio

	For the Years Ended	
	2008	2007
	(in thousands of U	
Expected tax provision at statutory rates in taxable jurisdictions	$ 59,961	$(135,90
Tax-exempt interest	(16,272)	(13,36
Change in FIN 48 liability	2,306	(10,15
Other	(2,547)	(33
Total provision for income taxes	$ 43,448	$(159,75

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

12. Income Taxes (Continued)

The deferred income tax asset (liability) reflects the tax effect of the following temporary differences:

Deferred tax assets:	
Unrealized losses on derivative financial instruments	
Reserves for losses and loss adjustment expenses	
Tax and loss bonds	
Net operating loss carry forward	
Alternative minimum tax credit	
Tax basis step-up	
Unrealized depreciation on investments	
Credit derivative assets/liabilities	
Other	
Total deferred income tax assets	
Deferred tax liabilities:	
Deferred acquisition costs	
Unearned premium reserves	
Contingency reserves	
Unrealized appreciation on investments	
Unrealized gains on committed capital securities	
Other	
Total deferred income tax liabilities	
Valuation allowance	
Net deferred income tax asset	

As of December 31, 2008, AGRO had a standalone net operating loss carry forward ("NOL") of $47.9
2007, which is available to offset its future U.S. taxable income. The Company has $27.2 million of this N
through 2023. AGRO's stand alone NOL is not permitted to offset the income of any other members of AG
we are required to establish a valuation allowance for NOLs that we believe are more likely than not to exp
likelihood of realization of all of its deferred tax assets. Based on this analysis, management believes it is m
$47.9 million NOL will not be utilized before it expires and has established a $7.0 million valuation allowa
believes that all other deferred income taxes are more-likely-than-not to be realized. The valuation allowan
and will be adjusted to the extent actual taxable income differs from estimates of future taxable income tha

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

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12. Income Taxes (Continued)

Taxation of Subsidiaries

The Company's Bermuda subsidiaries are not subject to any income, withholding or capital gains taxe subsidiaries are subject to income taxes imposed by U.S. and U.K. authorities and file applicable tax return elected under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. domestic corporation

The U.S. Internal Revenue Service ("IRS") has completed audits of all of the Company's U.S. subsidi 2001. In September 2007, the IRS completed its audit of tax years 2002 through 2004 for Assured Guarant includes Assured Guaranty Overseas US Holdings Inc., AGRO, Assured Guaranty Mortgage Insurance Co there were no significant findings and no cash settlements with the IRS. In addition the IRS is reviewing A includes Assured Guaranty US Holdings Inc., AGC and AG Financial Products and were part of the conso the IPO. The Company is indemnified by ACE for any potential tax liability associated with the tax exami addition, tax years 2005 and subsequent remain open.

Uncertain Tax Positions

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in ("FIN 48"), on January 1, 2007. As a result of the adoption of FIN 48, the Company reduced its liability fo by $2.6 million. The total liability for unrecognized tax benefits as of January 1, 2007 was $12.9 million. T tax rate.

Subsequent to the adoption of FIN 48, the IRS published final regulations on the treatment of consoli certain capital losses is no longer at a level that would require recording an associated liability for an uncer liability for unrecognized tax benefits and its provision for income taxes $4.1 million during the period end the IRS audit of Assured Guaranty Overseas US Holdings Inc. and subsidiaries, the liability for unrecogniz The total liability for unrecognized tax benefits as of December 31, 2008 and 2007 was $5.1 million and $ on the balance sheet. During the year ended December 31, 2008 the net liability of $2.8 million as of Dece to a position management intends to take on the Company's 2008 tax return. The Company does not believ significantly in the next twelve months.

The Company's policy is to recognize interest and penalties related to uncertain tax positions in incom accrued $0.9 million in interest and penalties.

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12. Income Taxes (Continued)

The following table provides a reconciliation of the beginning and ending balances of the total liabilit

(in thousands of U.S. dollars)
Balance as of January 1, 2008
Increase in unrecognized tax benefits as a result of position taken during the current period
Balance as of December 31, 2008

Liability For Tax Basis Step-Up Adjustment

In connection with the IPO, the Company and ACE Financial Services Inc. ("AFS"), a subsidiary of A Company and AFS made a "Section 338 (h)(10)" election that has the effect of increasing the tax basis of c fair value. Future tax benefits that the Company derives from the election will be payable to AFS when rea

As a result of the election, the Company has adjusted its net deferred tax liability, to reflect the new ta is expected to result in increased future income tax deductions and, accordingly, may reduce income taxes by the Company will be paid to AFS. Such tax benefits will generally be calculated by comparing the Com would have been owed by those subsidiaries had the increase in basis not occurred. After a 15 year period, Company and AFS will negotiate a settlement of the unrealized benefit based on the expected realization a

The Company initially recorded a $49.0 million reduction of its existing deferred tax liability, based c Section 338(h)(10) election. Under the tax allocation agreement, the Company estimated that, as of the IPC accordingly established this amount as a liability. The initial difference, which is attributable to the change associated step-up in the tax basis of its assets and no amounts due to AFS, resulted in an increase to additi 2008 and December 31, 2007, the liability for tax basis step-up adjustment, which is included in the Comp and $9.9 million, respectively. The Company has paid ACE and correspondingly reduced its liability by $0

Tax Treatment of CDS

The Company treats the guaranty it provides on CDS as insurance contracts for tax purposes and as su to make a loss payment to the buyer of credit protection based upon the occurrence of one or more specifie obligation or entity. The Company holds its CDS to maturity, at which time any unrealized mark to market of

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

12. Income Taxes (Continued)

December 31, 2008, the Company did not anticipate any significant credit related losses on its credit defau

The tax treatment of CDS is an unsettled area of the law. The uncertainty relates to the IRS's determin either subject to capital gain (loss) or ordinary income (loss) treatment. In treating CDS as insurance contr payment of losses as ordinary income and believes it is more likely than not that any CDS credit related lo IRS takes the view that the losses are capital losses in the future and the Company incurred actual losses a taxable income of the same character within the carryback and carryforward period available under the tax

As of December 31, 2008 and December 31, 2007 the deferred tax assets associated with CDS were $ came to the conclusion that it is more likely than not that its deferred tax asset related to CDS will be fully available as required under FAS 109. The evidence that was considered included the following:

Negative Evidence

Although the Company believes that income or losses for these credit default swaps ar federal tax treatment is an unsettled area of tax law as described above.

Changes in the fair value of CDS have resulted in significant swings in the Company's CDS in future periods could result in the U.S. consolidated tax group having a pre-tax could result in a cumulative three year pre-tax loss, which is considered significant ne under FAS 109.

For the three year period ended December 31, 2008 the US consolidated tax group had

Positive Evidence

The mark to market loss on CDS is not considered a tax event, and therefore no taxabl

The Company is in a cumulative net gain position related to the taxable activity on CD

The Company has no significant anticipated loss payments under its existing CDS con

After analysis of the current tax law on CDS the Company believes it is more likely th for tax purposes.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

12. Income Taxes (Continued)

Assuming a hypothetical loss were triggered for the amount of deferred tax asset ("DT carryback and future income to offset it as follows:

The amortization of the tax-basis unearned premium reserve of $528.0 millio installment premiums of contracts already written we believe will result in si

The Company has the ability to carryback losses two years which would offs

Although the Company has a significant tax exempt portfolio, this can be co strategy under FAS 109.

The mark-to-market loss is reflective of market valuations and will change fr ability to enter new business. The Company writes and continues to write ne premium and investment portfolio resulting in expected taxable income in fu

After examining all of the available positive and negative evidence, the Company believes that no val tax asset. The Company will continue to analyze the need for a valuation allowance on a quarter to quarter

13. Analysis of Premiums Written, Premiums Earned And Loss And Loss Adjustment Expenses

The Company enters into reinsurance agreements with non-affiliated companies to limit its exposure t reinsurers are unable to meet their obligations, the Company would be liable for such defaulted amounts. D adjustment expense amounts for the years ended December 31, 2008, 2007 and 2006 were as follows (200 Note 2):

	For the Years	
	2008	
	(in thousan	
Premiums Written		
Direct	$484,727	$
Assumed	133,543	
Ceded	(13,714)	
Net	$604,556	$
Premiums Earned		
Direct	$ 93,406	$
Assumed	176,332	
Ceded	(8,340)	
Net	$261,398	$

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

13. Analysis of Premiums Written, Premiums Earned And Loss And Loss Adjustment Expenses (Co

	For the Years	
	2008	
	(in thousan	
Loss and loss adjustment expenses (recoveries)		
Direct	$199,027	$
Assumed	64,890	
Ceded	1,845	
Net	$265,762	$

Reinsurance recoverable on ceded losses and LAE as of December 31, 2008 and December 31, 2007 mainly related to the Company's other segment. In the event that any or all of the reinsurers are unable to r defaulted amounts. Of these amounts, $4.8 million and $8.8 million, respectively, relate to reinsurance agr

Agreement with CIFG Assurance North America, Inc.

AGC entered into an agreement with CIFG Assurance North America, Inc. ("CIFG") to assume a dive approximately $13.3 billion of net par outstanding. The Company closed the transaction in January 2009 a upfront premiums net of ceding commissions, and approximately $12.2 million of future installments relat

XLFA Commutation

Effective July 25, 2008, AG Re commuted its $2.1 billion portfolio of business assumed from XLFA $14.6 million of unearned premium, net of ceding commissions, and loss reserves of $5.2 million, resulting

Agreement with Ambac Assurance Corporation

On December 13, 2007, AG Re reinsured a diversified portfolio of financial guaranty contracts totalin Ambac Assurance Corporation ("Ambac"), a subsidiary of Ambac Financial Group, Inc. The ceded contrac contracts. The portfolio was reinsured under AG Re's existing master facultative reinsurance agreement wi agreed to provide reinsurance under the terms of Ambac's current surplus share treaty program that expires opportunity to provide reinsurance under the terms of Ambac's surplus share treaty programs that commen reinsurance program in those periods.

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14. Insurance Regulations

AGC is a Maryland domiciled insurance company and a subsidiary of the Company. Under Maryland for distribution as dividends is subject to certain statutory provisions, which generally prohibit the paymen amount exceeding the lesser of 10% of surplus or net investment income (at the preceding December 31) v Insurance. The amount available for distribution from the Company during 2009 with notice to, but withou under the Maryland insurance law is approximately $37.8 million. During the years ended December 31, 2 $12.1 million and $13.8 million, respectively, in dividends to AGUS. Under Maryland insurance regulatio surplus of $750,000.

AG Re's and AGRO's dividend distribution are governed by Bermuda law. Under Bermuda law, divid believing that the Company is, or would after the payment be, able to pay its liabilities as they become due less than the aggregate of its liabilities and issued share capital and share premium accounts. Distributions are subject to a 15% limitation without prior approval of the Bermuda Monetary Authority. Dividends are times (i) maintain the minimum solvency margin required under the Insurance Act of 1978 and (ii) have re liabilities, both as defined under the Insurance Act of 1978. The amount available at AG Re to pay dividen $1,125.0 million. However, any distribution which results in a reduction of 15% of more of AG Re's total s statements, would require the prior approval of the Bermuda Monetary Authority. During 2008, AG Re de Assured Guaranty Ltd. During 2007 and 2006, AG Re declared dividends of $36.0 million and paid $35.3 respectively.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

15. Related Party Transactions

In 2004 the Company entered into reinsurance transactions with ACE subsidiaries as part of the IPO. and is no longer written. The following table summarizes the activity with ACE subsidiaries ("affiliated") a in the income statements (certain 2007 and 2006 amounts have been reclassified as discussed in Note 2). T reinsurance transactions.

	For the
	2008
	(in t
Net earned premiums	
Non-affiliated:	
Gross written premiums	$ 618,27
Ceded written premiums	(10,16
Net written premiums	608,10
Increase in net unearned premium reserves	(343,21
Non-affiliated net earned premiums	264,89
Affiliated:	
Gross written premiums	
Ceded written premiums	(3,54
Net written premiums	(3,54
Decrease (increase) in net unearned premium reserves	5
Affiliated net earned premiums	(3,49
Total	261,39
Net investment income	162,55
Net realized investment losses	(69,80
Change in fair value of credit derivatives	
Realized gains and other settlements on credit derivatives	117,58
Unrealized (losses) gains on credit derivatives	38,03
Net change in fair value of credit derivatives	155,62
Other income	43,41
Total revenues	**$ 553,18**

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

15. Related Party Transactions (Continued)

	For th
	2008
	(in
Loss and loss adjustment expenses (recoveries)	
Non-affiliated	$ 265,7
Affiliated	
Total	265,7
Profit commission expense	
Non-affiliated	1,3
Affiliated	
Total	1,3
Acquisition costs	
Non-affiliated	61,2
Affiliated	
Total	61,2
Other operating expenses	83,4
Interest expense	23,2
Other expense	5,7
Total expenses	**440,8**
Income (loss) before provision (benefit) for income taxes	112,3
Total provision (benefit) for income taxes	43,4
Net income (loss)	**$ 68,8**

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

15. Related Party Transactions (Continued)

The following table summarizes the affiliated components of each balance sheet item, where applicab

Assets
Prepaid reinsurance premiums
Reinsurance recoverable on ceded losses
Other assets
Total affiliate assets
Non-affiliate assets
Total assets
Liabilities and shareholders' equity
Liabilities
Unearned premium reserves
Reserves for loss and loss adjustment expenses
Funds held by Company under reinsurance agreements
Other liabilities
Total affiliate liabilities
Non-affiliate liabilities
Total liabilities
Total shareholders' equity
Total liabilities and shareholders' equity

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

15. Related Party Transactions (Continued)

The following table summarizes the non-affiliated and affiliated components of cash flows from opera

	For the
	2008
	(in t
Affiliated	$ (5,95
Non-affiliated	432,94
Net cash flows provided by operating activities	$ 426,98
Affiliated	$
Non-affiliated	(649,61
Net cash flows used in investing activities	$ (649,61
Affiliated(1)(2)	$ 250,00
Non-affiliated	(20,66
Net cash flows provided by (used in) financing activities	$ 229,33

(1) 2008 amount represents net proceeds from common stock issued to WL Ross. See Note 1.

(2) 2006 amount represents $150.0 million share repurchase from ACE and $2.0 million repayment

Transactions and Agreements with ACE

During 2008, 2007 and 2006, ACE provided certain general and administrative services to some of th AGRO. In 2008 and 2007 those services were information technology related services and in 2006 also inc included in the Company's consolidated financial statements related to these services were $0.1 million, $0 2008, 2007 and 2006, respectively. Effective January 1, 2007, the tax consulting and preparation services a

16. Commitments and Contingencies

Litigation

Effective January 1, 2004, Assured Guaranty Mortgage Insurance Company ("AGMIC") reinsured a p Insurance Stop Loss Excess of Loss Reinsurance Agreement (the "Agreement"). Under the Agreement, AG guaranty insurance losses in excess of a $25 million retention and subject to a $95 million limit. Coverage Reinsured's: (1) combined loss ratio exceeded 100%; and (2) risk to capital ratio exceeded 25 to 1, accordi notified the Reinsured it was terminating the Agreement because of the Reinsured's breach of the terms of

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16. Commitments and Contingencies (Continued)

AGMIC that it considers the Agreement to remain in effect and that the two coverage triggers under the A
2008, the Reinsured demanded arbitration against AGMIC seeking a declaration that the Agreement remai
The arbitration hearing took place before a three person panel in December 2008 and January 2009. Post h
February 26, 2009, and the arbitration panel could render its decision at any time thereafter.

It is the opinion of the Company's management, based upon the information available, that the expect
in the aggregate, will not have a material adverse effect on the Company's financial position or liquidity, a
Company could have a material adverse effect on the Company's results of operations in a particular quart

Real Estate Leases

The Company and its subsidiaries are party to various lease agreements. In June 2008, the Company's
five-year lease agreement for New York office space. Future minimum annual payments of $5.3 million fo
subsequent twelve month periods commenced October 1, 2008 and are subject to escalation in building op
future minimum rental payments under the terms of these operating leases for office space are $7.1 million
$5.1 million in 2013 and $1.1 million thereafter. These payments are subject to escalations in building ope
ended December 31, 2008, 2007 and 2006 was approximately $5.7 million, $3.5 million and $3.0 million,

Reinsurance

In the ordinary course of their respective businesses, certain of the Company's subsidiaries assert clai
paid in prior periods. The amounts, if any, the Company will recover in these proceedings are uncertain, a
during any quarter or fiscal year could be material to the Company's results of operations in that particular

During 2006, the Company's wholly owned subsidiary, AGRO, and a number of other parties, compl
Century Financial Enterprises Inc. Investment Litigation now pending in the United States District Court f
received approximately $0.4 million (pre-tax) in 2008, $1.3 million (pre-tax) in 2007 and $13.5 million (p
claims in 2003 of approximately $41.7 million (pre-tax) related to National Century Financial Enterprises
Company has recovered $20.5 million (pre-tax), representing a partial settlement of the litigation. The liti

The Company is party to reinsurance agreements with most of the major monoline primary financial
treaty agreements are generally subject to termination (i) upon written notice (ranging from 90 to 120 days

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16. Commitments and Contingencies (Continued)

deadline for renewal, (ii) at the option of the primary insurer if the Company fails to maintain certain finan equivalent to or more stringent than those the Company is otherwise required to maintain for its own comp specified financial strength rating for the particular insurance subsidiary or (iii) upon certain changes of co set forth in (ii) and (iii) above, the Company may be required (under some of its reinsurance agreements) t premiums, less ceding commissions, attributable to reinsurance ceded pursuant to such agreements after w respect to the ceded business. Upon the occurrence of the conditions set forth in (ii) above, whether or not obtain a letter of credit or alternative form of security to collateralize its obligation to perform under such a ceding commission paid.

17. Concentrations

The Company's client base includes all of the major monoline primary financial guaranty insurance co reinsurance companies. Of the Company's total non-CDS gross premiums written for the year ended Decer guaranty insurance company. Of the Company's total non-derivative gross premiums written for the year e Ambac and FSA, respectively, both of which are primary financial guaranty insurance companies. Of the C ended December 31, 2006, 22.0% came from FSA. No other client represented more than 10% of the Com ended December 31, 2008, 2007 and 2006.

18. Long-Term Debt

The Company's consolidated financial statements include long-term debt used to fund the Company's described below.

Senior Notes

On May 18, 2004, AGUS, a subsidiary of the Company, issued $200.0 million of 7.0% Senior Notes the offering were used to repay substantially all of a $200.0 million promissory note issued to a subsidiary transactions. The coupon on the Senior Notes is 7.0%, however, the effective rate is approximately 6.4%, t by the Company in March 2004, the term of which matches that of the Senior Notes. The Company record amortized gain on the cash flow hedge, for each of the years ended December 31, 2008, 2007 and 2006, re guaranteed by Assured Guaranty Ltd.

Series A Enhanced Junior Subordinated Debentures

On December 20, 2006, AGUS issued $150.0 million of Series A Enhanced Junior Subordinated Deb $149.7 million. The proceeds of the

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18. Long-Term Debt (Continued)

offering were used to repurchase 5,692,599 of Assured Guaranty Ltd.'s common shares from ACE Bermuc fixed 6.40% rate of interest until December 15, 2016, and thereafter pay a floating rate of interest, reset qu to 2.38%. AGUS may elect at one or more times to defer payment of interest for one or more consecutive p at the then applicable rate. AGUS may not defer interest past the maturity date. The Company recorded int for the years ended December 31, 2008, 2007 and 2006, respectively. These Debentures are guaranteed on

Credit Facilities

2006 Credit Facility

On November 6, 2006, Assured Guaranty Ltd. and certain of its subsidiaries entered into a $300.0 mil credit facility") with a syndicate of banks. Under the 2006 credit facility, each of AGC, AG (UK), AG Re, banks to make loans to such borrower or to request that letters of credit be issued for the account of such b

Of the $300.0 million available to be borrowed, no more than $100.0 million may be borrowed by As aggregate, and no more than $20.0 million may be borrowed by AG (UK). The stated amount of all outstan in respect of all letters of credit cannot, in the aggregate, exceed $100.0 million.

The 2006 credit facility also provides that Assured Guaranty Ltd. may request that the commitment o maximum aggregate amount of $400.0 million. Any such incremental commitment increase is subject to c least $25.0 million.

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

At the closing of the 2006 credit facility, (i) AGC guaranteed the obligations of AG (UK) under such of AG Re and AGRO under such facility and agreed that, if the Company Consolidated Assets (as defined were to fall below $1.2 billion, it would, within 15 days, guarantee the obligations of AGC and AG (UK) u Holdings Inc. guaranteed the obligations of Assured Guaranty Ltd., AG Re and AGRO under such facility well as Assured Guaranty Ltd.

The 2006 credit facility's financial covenants require that Assured Guaranty Ltd. (a) maintain a minim Consolidated Net Worth of Assured Guaranty Ltd. as of the most recent fiscal quarter of Assured Guaranty maximum debt-to-capital ratio of 30%. In addition, the 2006 credit facility requires that AGC maintain qua as of the fiscal

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18. Long-Term Debt (Continued)

quarter prior to November 6, 2006. Furthermore, the 2006 credit facility contains restrictions on Assured C things, in respect of their ability to incur debt, permit liens, become liable in respect of guaranties, make lo dissolve or become party to a merger, consolidation or acquisition, dispose of assets or enter into affiliate t minimum thresholds and exceptions. The 2006 credit facility has customary events of default, including (s payment default, failure to comply with covenants, material inaccuracy of representation or warranty, bank cross-default to other debt agreements. A default by one borrower will give rise to a right of the lenders to outstanding. As of December 31, 2008 and 2007, Assured Guaranty was in compliance with all of those fi

As of December 31, 2008 and 2007, no amounts were outstanding under this facility nor have there b

The 2006 credit facility replaced a $300.0 million three-year credit facility. Letters of credit for totalin December 31, 2008 discussed in Note 16. No letters of credit were outstanding as of December 31, 2007.

Non-Recourse Credit Facilities

AG Re Credit Facility

On July 31, 2007 AG Re entered into a non-recourse credit facility ("AG Re Credit Facility") with a s satisfy certain reinsurance agreements and obligations. The AG Re Credit Facility expires in July 2014.

The AG Re Credit Facility does not contain any financial covenants. The AG Re Credit Facility has c materiality thresholds and grace periods) payment default, failure to comply with covenants, material inacc insolvency proceedings, change of control and cross-default to other debt agreements. If any such event of potential outstanding borrowings in an accelerated manner.

AG Re's obligations to make payments of principal and interest on loans under the AG Re Credit Faci limited recourse obligations of AG Re and are payable solely from the collateral securing the AG Re Credi obligations in a designated portfolio, premiums with respect to defaulted insured obligations in that portfol

As of December 31, 2008 and 2007, no amounts were outstanding under this facility nor have there b

Committed Capital Securities

On April 8, 2005, AGC entered into four separate agreements with four different unaffiliated custodia of the custodial trusts to

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

18. Long-Term Debt (Continued)

purchase up to $50.0 million of perpetual preferred stock of AGC. The custodial trusts were created as a ve
to obtain immediate access to new capital at its sole discretion at any time through the exercise of the put o
$200.0 million in return for the issuance of its own perpetual preferred stock, the proceeds of which may b
put options were not exercised during 2008, 2007 or 2006. Initially, all of committed capital securities of th
special purpose pass-through trust (the "Pass-Through Trust"). The Pass-Through Trust was dissolved in A
distributed to the holders of the Pass-Through Trust's securities. Neither the Pass-Through Trust nor the Cu
financial statements.

Income distributions on the Pass-Through Trust Securities and CCS Securities were equal to an annua
periods ending on or prior to April 8, 2008. Following dissolution of the Pass-Through Trust, distributions
process. On April 7, 2008 this auction process failed, thereby increasing the annualized rate on the CCS Se
Distributions on the AGC Preferred Stock will be determined pursuant to the same process.

For the years ended December 31, 2008, 2007 and 2006, the Company has incurred $5.7 million, $2.6
premiums which are an on-going expense. The increase in 2008 compared with 2007 was due to the increa
basis points to One-Month LIBOR plus 250 basis points as a result of the failed auction process in April 20
consolidated statements of operations and comprehensive income under other expense.

The CCS securities had a fair value of $51.1 million (see Note 5) and $8.3 million as of December 31
fair value during 2008 and 2007 of $42.7 million and $8.3 million, respectively. The change in fair value is
comprehensive income in other income. The change in fair value of CCS securities was $0 during 2006, as

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

19. Shareholders' Equity

General

The Company has an authorized share capital of $5.0 million divided into 500,000,000 shares, par val
Company's common shares have no preemptive rights or other rights to subscribe for additional common s
no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of the Company's
the number of common shares held by such holder, in the Company's assets, if any remain after the payme
liquidation preference of any outstanding preferred shares. Under certain circumstances, the Company has
shareholder at fair market value. All of the common shares are fully paid and non assessable. Holders of th
dividends as lawfully may be declared from time to time by the Company's Board of Directors.

Issuance of Shares

Subject to the Company's Bye-Laws and Bermuda law, the Company's Board of Directors h
as it determines, including the issuance of any shares or class of shares with preferred, deferred c

The following table presents changes in the Company's common stock issued and outstanding for eac

	2008	2007
Beginning balance	79,948,979	67,534
Common stock issuance(1)	11,176,726	12,917
Reclassification to remove nonvested restricted stock due to adoption of FAS 123R(2)		
Share activity under option and incentive plans, net(3)	(170,002)	(69
Common stock repurchases(4)		(433
Ending balance	**90,955,703**	**79,948**

(1) Includes public offering, vesting of restricted stock and shares issued under ESPP.

(2) Prior to the adoption of FAS 123R, the Company reported restricted stock awards as issued com
on January 1, 2006, the Company reclassified any unvested restricted stock awards as nonvested

(3) Includes shares issued from exercises of stock options and shares repurchased from employees i
connection with the vesting of restricted stock awards.

(4) 2006 amount includes 5,692,599 shares of the Company's common stock purchased by Assured
Insurance Ltd., a subsidiary of ACE. See Note 18. Long-Term Debt, for more information.

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19. Shareholders' Equity (Continued)

Acquisition of Common Shares

Under the Company's Bye-Laws and subject to Bermuda law, if the Company's Board of Directors de result in adverse tax, legal or regulatory consequences to us, any of the Company's subsidiaries or any of it (other than such as the Company's Board of Directors considers de minimis), the Company has the option, the Company or to a third party to whom the Company assigns the repurchase right the minimum number adverse consequences at a price determined in the discretion of the Board of Directors to represent the shar Bye-Laws).

At the time of the IPO, ACE beneficially owned 26,000,000 common shares of Assured Guaranty Ltd repurchased 5,692,599 of the Company's common shares from a subsidiary of ACE. In addition, in Decem common shares to Banc of America Securities LLC. Assured Guaranty did not receive any proceeds from transactions, ACE's ownership in Assured Guaranty Ltd. was reduced to approximately 19.2 million of As

Stock Repurchase Programs

On November 8, 2007, the Company's Board of Directors approved a new share repurchase program take place at management's discretion depending on market conditions. During 2007, the Company paid $ Stock at an average price of $19.82. No shares were repurchased during 2008.

In May 2006, the Company's Board of Directors approved a share repurchase program for 1.0 million management's discretion depending on market conditions. In August 2007 the Company completed this sh paid $3.7 million and $21.1 million, respectively, to repurchase 1.0 million shares of its Common Stock at

Dividend Policy

During 2008, 2007 and 2006 the Company paid dividends of $16.0 million, or $0.18 per common sha $10.5 million, or $0.14 per common share, respectively. Any determination to pay cash dividends will be a depend upon the Company's results of operations and operating cash flows, its financial position and capita regulatory, rating agency and any contractual restrictions on the payment of dividends and any other factor information concerning regulatory constraints that will affect the Company's ability to pay dividends, see N

20. Employee Benefit Plans

Share-Based Compensation

Accounting for Share-Based Compensation

Effective January 1, 2006, the Company adopted FAS 123R, which replaces FAS 123 and supersedes transactions with employees, including grants of employee stock options, to be recognized as compensatio relative fair values.

Prior to the adoption of FAS 123R, the Company followed the guidance of APB 25 and did not recor stock options in the statement of operations, since for all grants the exercise price was equal to the market

The Company elected to use the modified prospective transition method for implementing FAS 123R includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, in accordance with the original provisions of FAS 123, and (b) compensation expense for all share-based p grant date fair value estimated in accordance with the provisions of FAS 123R. Because the Company elec for prior periods have not been restated and new awards are valued and accounted for prospectively upon a

Effective January 1, 2006, upon adoption of FAS 123R, the Company began recording share-based co the Company sponsored employee stock purchase plan. Also, the Company began recording the cost assoc employees.

Share-based compensation expense in 2008, 2007 and 2006 was $11.9 million ($9.6 million after tax) ($10.0 million after tax), respectively. The effect on both basic and diluted earnings per share for 2008 was share for 2007 was $0.21. The effect on basic and diluted earnings per share for 2006 was $0.14 and $0.13 $3.3 million ($2.9 million after tax), $5.9 million ($5.1 million after tax) and $2.2 million ($1.8 million aft award grants to retirement-eligible employees. FAS 123R requires these awards be expensed over the peri retire and is no longer required to provide service to earn part or all of the award, regardless of the employ compensation capitalized in 2008, 2007 and 2006 as DAC was $3.3 million, $2.7 million and $2.6 million,

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

20. Employee Benefit Plans (Continued)

The following table presents pre-DAC and pre-tax, share-based compensation cost by share-based typ

	Year En
(in thousands of U.S. dollars)	**2008**
Share-Based Employee Cost	
Restricted Stock	
Recurring amortization	$ 6,075
Accelerated amortization for retirement eligible employees	125
Subtotal	6,200
Restricted Stock Units	
Recurring amortization	1,174
Accelerated amortization for retirement eligible employees	1,632
Subtotal	2,806
Stock Options	
Recurring amortization	3,373
Accelerated amortization for retirement eligible employees	1,498
Subtotal	4,871
ESPP	125
Total Share-Based Employee Cost	**14,002**
Share-Based Directors Cost	
Restricted Stock	441
Restricted Stock Units	677
Total Share-Based Directors Cost	**1,118**
Total Share-Based Cost	**$ 15,120**

Assured Guaranty Ltd. 2004 Long-Term Incentive Plan

As of April 27, 2004, the Company adopted the Assured Guaranty Ltd. 2004 Long-Term Incentive Pl may be delivered under the Incentive Plan may not exceed 7,500,000. In the event of certain transactions a of shares subject to the Incentive Plan, the number and type of shares subject to outstanding awards under Incentive Plan, may be adjusted.

The Incentive Plan authorizes the grant of incentive stock options, non-qualified stock options, stock
the Company's common shares. The grant of full value awards may be in return for a participant's previous

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

20. Employee Benefit Plans (Continued)

return for the participant surrendering other compensation that may be due, or may be contingent on the ac
specified period, or may be subject to a risk of forfeiture or other restrictions that will lapse upon the achie
by the participant, or achievement of performance or other objectives. Awards under the Incentive Plan ma
the Company.

The Incentive Plan is administered by a committee of the Board of Directors. The Compensation Com
otherwise determined by the Board. The Board may amend or terminate the Incentive Plan. As of Decemb
grant under the Incentive Plan.

Stock Options

Nonqualified or incentive stock options may be granted to employees and directors of the Company. S
prices equal to the closing price on the date of grant. To date, the Company has only issued nonqualified st
equal annual installments over a three-year period and expire 10 years from the date of grant. None of the C
Following is a summary of the Company's options issued and outstanding for the years ended December 3

	Year of Expiration	Weig Ave Exercis
Balance as of December 31, 2005		$
Options granted	2016	$
Options exercised		$
Options forfeited		$
Balance as of December 31, 2006		$
Options granted	2017	$
Options exercised		$
Options forfeited		$
Balance as of December 31, 2007		$
Options granted	2018	$
Options exercised		$
Options forfeited		$
Balance as of December 31, 2008		$
Exercisable as of December 31, 2006		$
Exercisable as of December 31, 2007		$
Exercisable as of December 31, 2008		$

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

20. Employee Benefit Plans (Continued)

As of December 31, 2008, the aggregate intrinsic value and weighted average remaining contractual t respectively. As of December 31, 2008, the aggregate intrinsic value and weighted average remaining cont respectively.

The Company recorded $4.9 million ($3.7 million after tax) in share based compensation related to st December 31, 2008 the total unrecognized compensation expense related to outstanding nonvested stock o for the difference between estimated and actual forfeitures. The Company expects to recognize that expens 1.3 years.

The weighted average grant-date fair value of options granted were $7.59, $6.83 and $6.71 for the yea The fair value of options issued is estimated on the date of grant using the Black Scholes option pricing mo for grants in 2008, 2007 and 2006:

	2008
Dividend yield	0.8%
Expected volatility	35.10%
Risk free interest rate	2.8%
Expected life	5 years
Forfeiture rate	6.0%

These assumptions were based on the following:

The expected dividend yield is based on the current expected annual dividend and shar

Expected volatility is estimated at the date of grant based on the historical share price v

The risk-free interest rate is the implied yield currently available on U.S. Treasury zero granted stock options,

The expected life is based on the average expected term of the Company's guideline co the Company has insufficient expected life data,

The forfeiture rate is based on the rate used by the Company's guideline companies, si forfeitures will be reassessed at each grant vesting date and may change based on new

For options granted before January 1, 2006, the Company amortizes the fair value on an accelerated b Company amortizes the fair value on a straight-line basis. All options are amortized over the requisite serv periods, with the exception of retirement-eligible employees. For retirement-eligible employees, options ar

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

20. Employee Benefit Plans (Continued)

first becomes eligible to retire and is no longer required to provide service to earn part or all of the award. the Black-Scholes option valuation model in the future, which could materially affect the Company's net in

The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 20 respectively. During the years ended December 31, 2008, 2007 and 2006, $0.3 million, $1.5 million and $2 stock options and $16 thousand, $0.2 million and $0.2 million, respectively, related tax benefit was record cash flows. In order to satisfy stock option exercises, the Company will either issue new shares or reissue s Company's common shares from ACE Bermuda. See Note 19 for further information.

Restricted Stock Awards

Under the Company's Incentive Plan 20,443, 487,437 and 460,083 restricted common shares were aw 2006, respectively, to employees and non-employee directors of the Company. These shares vest at variou

The Company has granted restricted stock awards to employees and directors of the Company. Restri over a four-year period. Restricted stock awards are amortized on a straight-line basis over the requisite se periods, with the exception of retirement-eligible employees, discussed above. Prior to the adoption of FA the balance sheet in common stock and additional paid-in capital with an offset in unearned stock grant co In accordance with the provisions of FAS 123R, on January 1, 2006, the Company reclassified the balance additional paid-in capital in shareholders' equity. The following table summarizes restricted stock award a

Nonvested Shares	Number Shares
Nonvested at December 31, 2007	1,163,6
Granted	20,4
Vested	(478,4
Forfeited	(19,3
Nonvested at December 31, 2008	686,3

The Company recorded $6.6 million ($4.9 million after tax) in share-based compensation, related to r 2008.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

20. Employee Benefit Plans (Continued)

The following table includes a roll-forward of unearned stock grant compensation:

Balance, December 31, 2005	
Reclassification due to adoption of FAS 123R	
Balance, December 31, 2006	

As of December 31, 2008 the total unrecognized compensation cost related to outstanding nonvested
expects to recognize over the weighted-average remaining service period of 1.5 years. The total fair value
2007 and 2006 was $10.3 million, $8.0 million and $5.2 million, respectively.

Restricted Stock Units

Under the Company's Incentive Plan 275,493, 28,988 and 34,030 restricted stock units were awarded
respectively, to employees and non-employee directors of the Company. Restricted stock units are valued
of grant. The 2008 amount included 251,270 restricted stock units which the Company granted to employe
vesting terms similar to those of the restricted common shares and are delivered on the vesting date. The C
Company. These restricted stock units vest over a one-year period and are delivered after directors leave.

The following table summarizes restricted stock unit activity (excluding dividend equivalents) for the

Nonvested Stock Units	**Numbe of Stock Units**
Nonvested at December 31, 2007(1)	129,31
Granted(2)	275,49
Delivered(1)	(16,54
Forfeited	(6,75
Nonvested at December 31, 2008	381,51

(1) Amounts relate to restricted stock units granted to non-employee directors of

(2) Includes 24,223 restricted stock units granted to non-employee directors of A

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20. Employee Benefit Plans (Continued)

The Company recorded $3.5 million ($3.0 million after tax) in share-based compensation during the y
restricted stock units is expensed on a straight-line basis over the vesting period. As of December 31, 2008
outstanding nonvested restricted stock units was $2.8 million, which the Company expects to recognize ov
1.8 years. The total fair value of restricted stock units delivered during the years ended December 31, 2008

Employee Stock Purchase Plan

In January 2005, the Company established the Assured Guaranty Ltd. Employee Stock Purchase Plan
Revenue Code Section 423. The Stock Purchase Plan was approved by shareholders at the 2005 Annual G
available to all eligible employees. Maximum annual purchases by participants are limited to the number o
10 percent of the participant's compensation or, if less, shares having a value of $25,000. Participants may
lesser of the fair market value of the stock on the first day or the last day of the subscription period. The C
Purchase Plan 100,000 shares of its common stock. Employees purchased the Company's shares for aggreg
the years ended December 31, 2008, 2007 and 2006. The Company recorded $0.1 million ($0.1 million aft
Plan during the year ended December 31, 2008.

Defined Contribution Plan

The Company maintains savings incentive plans, which are qualified under Section 401(a) of the Inte
available to all full-time employees upon hire. Eligible participants may contribute a percentage of their sa
January 1, 2006, the Company amended the U.S. savings incentive plan. The Company matches employee
amounts over the IRS limits, are contributed to and matched by the Company into a nonqualified suppleme
core contribution of 6% to the qualified plan and the nonqualified supplemental executive retirement plan,
addition, employees become fully vested after 1 year of service, as defined in the plan. Plan eligibility is in

In Bermuda the savings incentive plan is available to all full-time employees upon their first date of e
of their salary subject to a maximum of $15,500 for 2008. Contributions are matched by the Company at a
subject to IRS limitations. Eligible participants also receive a Company core contribution equal to 6% of th
without requiring the participant to contribute to the plan. Participants generally vest in Company contribu
to those employees who are Bermudian or spouses of Bermudians and who must participate in the Bermud
a portion of the foregoing contributions are made to the Bermuda

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

20. Employee Benefit Plans (Continued)

national pension scheme plan. If employee or employer contributions in the Bermuda savings incentive pla
section 401(a), then contributions in excess of those limits are allocated to a nonqualified plan. The Compa
employees' Bermuda nonqualified plan accounts at the discretion of the Board of Directors. No such contri

The Company contributed approximately $2.3 million in 2008, $2.9 million in 2007 and $2.6 million
plans. Total discretionary expense under all these plans amounted to approximately $2.7 million in 2008, $

Cash-Based Compensation

Performance Retention Plan

In February 2006, the Company established the Assured Guaranty Ltd. Performance Retention Plan w
employees. Awards granted to participants before 2008 vest after four years of continued employment (or
termination occurs as a result of death, disability, or retirement), and participants receive the designated av
participants who vest as a result of retirement receive the bonus at the end of the four year period during w
continued in employment. The value of the award paid is greater than the originally-designated amount on
in the company's modified adjusted book value, improves during the four year performance period. For tho
period as a result of their termination of employment resulting from retirement, death or disability, the valu
amount only if actual company performance, as measured by an increase in the company's modified adjust
day of the calendar quarter prior to the date of the participant's termination of employment. Awards under
compensation subject to the rules of Internal Revenue Code Section 409A, and the plan was revised to sati
which occurred in 2007.

The plan was again revised in 2008 to be a sub-plan under our Long-Term Incentive Plan (enabling a
exempt from the $1 million limit on tax deductible compensation). The revisions also give the Compensati
performance retention awards, including the ability to establish different performance periods and perform

Two types of awards were granted in 2008. Under the first type, the award is divided into three install
period that includes 2008 and 2009, 25% of the award allocated to a performance period that includes 200
performance period that includes 2008 through 2011. Each installment of an award vests if the participant
for that installment (or vests on the date of the participant's death, disability, or retirement if that occurs du
period is made at the end of that performance

20. Employee Benefit Plans (Continued)

period. One half of each installment is increased or decreased in proportion to the increase or decrease of m and one half of each installment is increased or decreased in proportion to the increase or decrease of opera (However, if, during the performance period, a participant dies or becomes disabled while employed, the a before death or disability and is paid after the occurrence of death or disability.)

Under the second type of award granted in 2008, the entire award is allocated to a performance perioc participant remains employed through the end of the performance period (or vests on the date of the partici performance period). Payment is made at the end of the performance period. One half of the award is incre modified adjusted book value during the performance period, and one half of the award is increased or dec return on equity during the performance period. (However, if, during the performance period, a participant based on performance through the quarter ending before death or disability and is paid after the occurrence

Under both types of the 2008 awards, if a payment would otherwise be subject to the $1 million limit unless performance satisfies a minimum threshold.

Modified adjusted book value as of any date is determined by the Compensation Committee and equa

the book value of the Company, derived by determining shareholders' equity, plus the guaranty net unearned premium reserves, less deferred acquisition costs, plus

the present value of estimated net future installment premiums, as reported in the Com of accumulated other comprehensive income, and the effects of unrealized gains and lo FAS 133.

Operating return on equity as of any date is determined by the Compensation Committee and equals:

the Company's operating income as a percentage of average shareholders' equity, exclu

accumulated other comprehensive income and after-tax unrealized gains (losses) on de

Operating income is net income (loss) excluding after-tax realized gains (losses) on investments and a instruments.

In the event of a corporate transaction involving the Company, including, without limitation, any shar recapitalization, reorganization, merger, amalgamation, consolidation, split-up, spin-off, sale of assets or su Compensation Committee may adjust the calculation of the Company's modified adjusted

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20. Employee Benefit Plans (Continued)

book value and operating return on equity as the Compensation Committee deems necessary or desirable i
Performance Retention Plan awards.

The Company recognized approximately $5.7 million ($4.5 million after tax) and $0.2 million ($0.1 r
in 2008 and 2007, respectively. Included in 2008 amounts were $3.3 million, respectively, of accelerated e
Company's compensation expense for 2007 was in the form of performance retention awards and the awar

21. Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average nu
Diluted earnings (loss) per share adjusts basic earnings (loss) per share for the effects of restricted stock, st
instruments, only in the periods in which such effect is dilutive.

The following table sets forth the computation of basic and diluted earnings per share ("EPS"):

	For the Years	
	2008	
	(in thousands	
		per sh
Net income (loss)	$68,883	$(
Basic shares	87,976	
Effect of dilutive securities:		
Stock awards	970	
Diluted shares(1)	88,946	
Basic EPS	$ 0.78	$
Diluted EPS	$ 0.77	$

(1) Totals may not add due to rounding.

Potentially dilutive securities representing approximately 2.4 million, 5.0 million and 0.8 million shar
2007 and 2006, respectively, were excluded from the computation of diluted earnings per share for these p

22. Goodwill

Goodwill of $94.6 million arose from ACE's acquisition of Capital Re Corporation, Assured's corpora
amortized over a period of twenty-five years. On January 1, 2002, the Company ceased amortizing goodwi
impairment at least annually in accordance with FAS 142. No such impairment was recognized in the year

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

22. Goodwill (Continued)

The following table details goodwill by segment as of December 31, 2008 and 2007:

(in thousands of U.S. dollars)	
Financial guaranty direct	$
Financial guaranty reinsurance	
Mortgage guaranty	
Other	
Total	$

The Company conducted its most recent impairment test as of December 31, 2008. Step 1 of a goodw
value of a reporting unit with its carrying amount, including goodwill. The market value of common stock
goodwill impairment of a publicly traded company. Due to the recent and severe volatility experienced in t
as measured by quoted prices for their common stock has been severely negatively impacted during the sec
common stock in the fourth quarter of 2008 has been affected by these macro economic conditions as well
carrying value.

The Company's Step 1 goodwill impairment test is based on determining the fair value of the Compan
these fair values to the Company's consolidated fair value. The Company determined the current in-force v
discounted cash flow basis to assess goodwill for impairment. The inputs to our discounted cash flow mod
unearned premium at carrying value, future installment premiums discounted at 15%, a future expense loa
Management has determined that the discounted cash flows supported the Company's goodwill balances fo
December 31, 2008.

The pending FSAH transaction may cause a triggering event that will cause management to reassess i
business. If management determines in a future reporting period that goodwill is impaired, the Company w
of operations and comprehensive income in an amount up to $85.4 million, the current carrying value of go
Company's debt agreements or our overall compliance with the covenants of our debt agreements.

23. Segment Reporting

The Company has four principal business segments: (1) financial guaranty direct, which includes tran
and irrevocable guaranty that indemnifies the holder of a financial obligation against non-payment of princ
credit derivative; (2) financial guaranty reinsurance, which includes agreements whereby the Company is a
company against part or all of the loss which the latter may sustain under a policy it has issued; (3) mortga

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

23. Segment Reporting (Continued)

includes mortgage guaranty insurance and reinsurance whereby the Company provides protection against t which includes lines of business in which the Company is no longer active.

The Company does not segregate assets and liabilities at a segment level since management reviews a basis. The Company allocates operating expenses to each segment based on a comprehensive cost study. D expense allocation methodology to more closely allocate expenses to the individual operating segments. Th which was based on departmental time estimates and headcount.

Management uses underwriting gains and losses as the primary measure of each segment's financial p premiums plus realized gains and other settlements on credit derivatives, less the sum of loss and loss adju credit derivatives, profit commission expense, acquisition costs and other operating expenses that are direc businesses. This measure excludes certain revenue and expense items, such as net investment income, reali derivatives, other income, and interest and other expenses, that are not directly related to the underwriting included in net income.

The following table summarizes the components of underwriting gain (loss) for each reporting segme

		Year Ende
	Financial Guaranty Direct	Financial Guaranty Reinsurance
		(in millio
Gross written premiums	$ 484.7	$ 129.3
Net written premiums	474.7	129.1
Net earned premiums	90.0	165.9
Realized gain and other settlements on credit derivatives	113.8	3.4
Loss and loss adjustment expenses (recoveries)	196.7	68.4
Incurred losses on credit derivatives	38.4	5.4
Total loss and loss adjustment expenses (recoveries)	235.1	73.8
Profit commission expense		1.0
Acquisition costs	14.0	46.6
Other operating expenses	61.5	19.7
Underwriting (loss) gain	$ (106.8)	$ 28.1

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

23. Segment Reporting (Continued)

	Financial Guaranty Direct	Year Ended Financial Guaranty Reinsurance
		(in millio
Gross written premiums	$ 167.1	$ 251.0
Net written premiums	154.5	250.8
Net earned premiums	52.8	88.9
Realized gain and other settlements on credit derivatives	72.7	
Loss and loss adjustment expenses (recoveries)	29.2	(24.1)
Incurred losses on credit derivatives	3.6	
Total loss and loss adjustment expenses (recoveries)	32.7	(24.1)
Profit commission expense		2.7
Acquisition costs	10.2	31.3
Other operating expenses	60.5	17.3
Underwriting gain	$ 22.1	$ 61.6

	Financial Guaranty Direct	Year Ended Financial Guaranty Reinsurance
		(in millio
Gross written premiums	$ 124.8	$ 123.9
Net written premiums	124.1	123.2
Net earned premiums	27.8	94.4
Realized gain and other settlements on credit derivatives	60.4	
Loss and loss adjustment expenses (recoveries)	2.6	13.1
Incurred losses (gains) on credit derivatives	(6.3)	
Total loss and loss adjustment expenses (recoveries)	(3.7)	13.1
Profit commission expense		2.7
Acquisition costs	8.7	34.1
Other operating expenses	52.3	14.5
Underwriting gain	$ 30.8	$ 30.0

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

23. Segment Reporting (Continued)

The following is a reconciliation of total underwriting (loss) gain to income (loss) before provision fo

	December 31,		
	2008	**2007**	**2006**
	(in millions of U.S. dollars)		
Total underwriting (loss) gain	$ (76.4)	$ 94.5	$ 91.
Net investment income	162.6	128.1	111.
Net realized investment losses	(69.8)	(1.3)	(2.
Unrealized gains (losses) on credit derivatives, excluding incurred losses on credit derivatives	81.7	(666.9)	5.
Other income	43.4	8.8	0.
Interest expense	(23.3)	(23.5)	(13.
Other expense	(5.7)	(2.6)	(2.
Income (loss) before provision for income taxes	$ 112.3	$ (463.0)	$ 190.

The following table provides the lines of businesses from which each of the Company's four reporting

	Years
	2008
	(in mi
Financial guaranty direct:	
Public finance	$ 34.6
Structured finance	55.4
Total	90.0
Financial guaranty reinsurance:	
Public finance	123.1
Structured finance	42.8
Total	165.9
Mortgage guaranty:	
Mortgage guaranty	5.7
Total net earned premiums	**$ 261.4**
Net credit derivative premiums received and receivable	**$ 118.1**
Total net earned premiums and credit derivative premiums received and receivable	**$ 379.5**

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

23. Segment Reporting (Continued)

The other segment had an underwriting gain of $1.9 million, $1.3 million and $13.5 million for the ye
The Company recorded net credit derivative loss recoveries of $0.4 million, $1.3 million and $13.5 millior
respectively.

The following table summarizes the Company's gross written premiums by geographic region. Alloca

	Years Ended		
	2008		20
	(in millions o		
North America	$603.8	97.7%	$356.4
United Kingdom	10.1	1.6%	62.4
Europe	3.6	0.6%	3.7
Australia	0.6	0.1%	2.0
Other	0.2		
Total	$618.3	100.0%	$424.5

24. Subsidiary Information

The following tables present the condensed consolidated financial information for Assured Guaranty
subsidiary and AG Re and other subsidiaries of Assured Guaranty Ltd. as of December 31, 2008 and 2007
(certain 2007 and 2006 amounts have been reclassified as discussed in Note 2).

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Assured Guaranty Ltd.

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December 31, 2008, 2007 and 2006

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING BALANCE S
AS OF DECEMBER 31, 2008
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re an Other Subsidiar
Assets			
Total investments and cash	$ 188	$ 1,651,761	$ 1,991,6
Investment in subsidiaries	1,901,108		
Deferred acquisition costs		78,987	209,6
Reinsurance recoverable		22,014	3,4
Goodwill		85,417	
Credit derivative assets		125,082	21,8
Premiums receivable		6,659	23,5
Deferred tax asset		109,565	19,5
Other	29,427	383,272	49,5
Total assets	$ 1,930,723	$ 2,462,757	$ 2,319,2
Liabilities and shareholders' equity			
Liabilities			
Unearned premium reserves	$	$ 707,957	$ 713,9
Reserves for losses and loss adjustment expenses		133,710	90,7
Profit commissions payable		3,971	4,6
Credit derivative liabilities		481,253	252,5
Senior Notes		197,443	
Series A Enhanced Junior Subordinated Debentures		149,767	
Other	4,501	82,024	62,9
Total liabilities	4,501	1,756,125	1,124,8
Total shareholders' equity	1,926,222	706,632	1,194,4
Total liabilities and shareholders' equity	$ 1,930,723	$ 2,462,757	$ 2,319,2

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING BALANCE
AS OF DECEMBER 31, 2007
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re an Other Subsidiari
Assets			
Total investments and cash	$ 473	$ 1,370,865	$ 1,776,60
Investment in subsidiaries	1,649,599		
Deferred acquisition costs		78,908	180,39
Reinsurance recoverable		20,478	3,52
Goodwill		85,417	
Credit derivative assets		4,552	92
Premiums receivable		11,596	26,97
Deferred tax asset		131,449	16,11
Other	20,458	141,520	27,56
Total assets	$ 1,670,530	$ 1,844,785	$ 2,032,09
Liabilities and shareholders' equity			
Liabilities			
Unearned premium reserves	$	$ 346,756	$ 624,84
Reserves for losses and loss adjustment expenses		70,411	70,19
Profit commissions payable		3,628	18,70
Credit derivative liabilities		478,519	144,59
Senior Notes		197,408	
Series A Enhanced Junior Subordinated Debentures		149,738	
Other	3,960	73,241	49,23
Total liabilities	3,960	1,319,701	907,57
Total shareholders' equity	1,666,570	525,084	1,124,51
Total liabilities and shareholders' equity	$ 1,670,530	$ 1,844,785	$ 2,032,09

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING STATEMENT OF (
FOR THE YEAR ENDED DECEMBER 31, 2
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re and Other Subsidiarie
Revenues			
Net written premiums	$	$ 345,912	$ 258,64
Net earned premiums		91,998	169,40
Net investment income	543	73,576	88,43
Net realized investment losses		(14,661)	(55,14
Change in fair value of credit derivatives			
Realized gains and other settlements on credit derivatives		93,435	24,15
Unrealized gains (losses) on credit derivatives		126,212	(88,17
Net change in fair value of credit derivatives		219,647	(64,02
Equity in earnings of subsidiaries	85,572		
Other income		44,358	1
Total revenues	86,115	414,918	138,68
Expenses			
Loss and loss adjustment expenses		149,479	116,28
Acquisition costs and other operating expenses	17,232	72,085	56,76
Other		29,017	
Total expenses	17,232	250,581	173,04
Income (loss) before provision for income taxes	68,883	164,337	(34,36
Total provision for income taxes		42,693	75
Net income (loss)	$ 68,883	$ 121,644	$ (35,11

*

Due to the accounting for subsidiaries under common control, net income in the consolidating ac
earnings of subsidiaries, due to 1) recognition of income by Assured Guaranty US Holdings Inc.
2) the residual effects of the FSA agreement.

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Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING STATEMENT OF (
FOR THE YEAR ENDED DECEMBER 31, 2
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re and Other Subsidiari
Revenues			
Net premiums written	$	$ 123,554	$ 284,41
Net premiums earned		58,717	100,54
Net investment income	2	63,611	64,48
Net realized investment (losses) gains		(478)	(89
Change in fair value of credit derivatives			
Realized gains and other settlements on credit derivatives		56,752	17,24
Unrealized losses on credit derivatives		(516,357)	(154,04
Net change in fair value of credit derivatives		(459,605)	(136,80
Equity in earnings of subsidiaries	(285,190)		
Other income		9,657	
Total revenues	(285,188)	(328,098)	27,32
Expenses			
Loss and loss adjustment expenses (recoveries)		(15,375)	21,15
Acquisition costs and other operating expenses	18,084	64,179	47,22
Other		26,091	6
Total expenses	18,084	74,895	68,44
(Loss) income before (benefit) provision for income taxes	(303,272)	(402,993)	(41,12
Total (benefit) provision for income taxes		(153,896)	(5,86
Net (loss) income	$ (303,272)	$ (249,097)	$ (35,25

*

Due to the accounting for subsidiaries under common control, net (loss) income in the consolidat
in earnings of subsidiaries, due to 1) recognition of income by Assured Guaranty US Holdings In
2) the residual effects of the FSA agreement.

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December 31, 2008, 2007 and 200

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING STATEMENT OF
FOR THE YEAR ENDED DECEMBER 31,
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re and Other Subsidiari
Revenues			
Net premiums written	$	$ 79,246	$ 176,57
Net premiums earned		56,781	88,02
Net investment income	2	55,710	55,78
Net realized investment losses		(1,175)	(81
Change in fair value of credit derivatives			
Realized gains and other settlements on credit derivatives		45,162	28,69
Unrealized gains on credit derivatives		5,186	6,64
Net change in fair value of credit derivatives		50,348	35,34
Equity in earnings of subsidiaries	176,060		
Other income	2	393	2
Total revenues	176,064	162,057	178,34
Expenses			
Loss and loss adjustment expenses		8,143	3,18
Acquisition costs and other operating expenses	16,317	58,812	47,62
Other	13	16,304	
Total expenses	16,330	83,259	50,80
Income before provision for income taxes	159,734	78,798	127,54
Total provision for income taxes		16,508	13,71
Net income	$ 159,734	$ 62,290	$ 113,82

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Due to the accounting for subsidiaries under common control, net income in the consolidating ac earnings of subsidiaries, due to the FSA agreement.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING STATEMENT OF C
FOR THE YEAR ENDED DECEMBER 31, 2
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re an Other Subsidiari
Dividends received	$ 31,300	$ 964	$
Other operating activities	(9,941)	269,986	166,94
Net cash flows provided by (used in) operating activities	**21,359**	**270,950**	**166,94**
Cash flows from investing activities			
Fixed maturity securities:			
Purchases		(495,798)	(776,2
Sales		207,167	324,9
Maturities			11,7
Sales (purchases) of short-term investments, net	285	(76,158)	154,4
Capital contribution to subsidiary	(250,000)		
Net cash flows used in investing activities	**(249,715)**	**(364,789)**	**(285,1**
Cash flows from financing activities			
Net proceeds from common stock issuance	248,967		
Capital contribution from parent		100,000	150,0
Dividends paid	(16,979)		(31,3
Tax benefit from stock options exercised		16	
Proceeds from employee stock purchase plan	425		
Share activity under option and incentive plans	(4,057)		
Net cash flows provided by (used in) financing activities	**228,356**	**100,016**	**118,7**
Effect of exchange rate changes		(1,639)	(8
Increase (decrease) in cash and cash equivalents		4,538	(2
Cash and cash equivalents at beginning of period		5,688	2,3

Cash and cash equivalents at end of period	**$**		**$**	**10,226**	**$**	**2,0**

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING STATEMENT OF C
FOR THE YEAR ENDED DECEMBER 31, 2
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re a Other Subsidia
Dividends received	$ 35,349	$ 857	$
Other operating activities	(13,204)	113,837	285,
Net cash flows provided by (used in) operating activities	**22,145**	**114,694**	**285,**
Cash flows from investing activities			
Fixed maturity securities:			
Purchases		(373,699)	(680,
Sales		256,066	530,
Maturities		6,180	18,
Capital contribution to subsidiary	(304,016)		
Sales (purchases) of short-term investments, net	1,050	(182)	(421,
Net cash flows (used in) provided by investing activities	**(302,966)**	**(111,635)**	**(553,**
Cash flows from financing activities			
Proceeds from issuance of common stock	304,016		
Capital contribution from parent			304,
Repurchases of common stock	(9,349)		
Dividends paid	(11,889)		(35,
Tax benefits from stock options exercised		183	
Debt financing costs		(425)	
Proceeds from employee stock purchase plan	627		
Share activity under option and incentive plans	(2,584)		
Net cash flows provided by (used in) financing activities	**280,821**	**(242)**	**268,**
Effect of exchange rate changes		95	
Increase in cash and cash equivalents		2,912	
		2,776	2,

Cash and cash equivalents at beginning of year			
Cash and cash equivalents at end of year	**$**	**$ 5,688**	**$ 2,**

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

24. Subsidiary Information (Continued)

CONDENSED CONSOLIDATING STATEMENT OF C
FOR THE YEAR ENDED DECEMBER 31, 2
(in thousands of U. S. dollars)

	Assured Guaranty Ltd. (Parent Company)	Assured Guaranty US Holdings Inc.	AG Re a Other Subsidiar
Dividends received	$ 42,563	$	$
Other operating activities	(7,759)	148,982	120,
Net cash flows provided by operating activities	**34,804**	**148,982**	**120,**
Cash flows from investing activities			
Fixed maturity securities:			
Purchases		(508,406)	(374,
Sales		341,373	315,
Maturities		7,064	9,
(Purchases) sales of short-term investments, net	(1,360)	12,172	(29,
Net cash flows used in investing activities	**(1,360)**	**(147,797)**	**(79,**
Cash flows from financing activities			
Repurchases of common stock	(21,063)	(150,000)	
Dividends paid	(10,458)		(42,
Tax benefits from stock options exercised		170	
Net proceeds from issuance of Series A Enhanced Junior Subordinated Debentures		149,708	
Debt financing costs		(1,500)	
Repayment of note payable	(2,000)		
Proceeds from employee stock purchase plan	501		
Share activity under option and incentive plans	(424)		
Net cash flows used in financing activities	**(33,444)**	**(1,622)**	**(42,**
Effect of exchange rate changes		290	
Decrease in cash and cash equivalents		(147)	(1,

Cash and cash equivalents at beginning of year			2,923		3,
Cash and cash equivalents at end of year	**$**	**$**	**2,776**	**$**	**2,**
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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (Con

December 31, 2008, 2007 and 2006

25. Quarterly Financial Information (unaudited)

A summary of selected quarterly statement of operations information follows (certain 2007 amounts h

(in thousands, except per share data)

2008	**First**	**Secon**
Gross written premiums	$ 175,802	$ 245,
Net written premiums	169,692	240,
Net earned premiums	46,833	51,
Net investment income	36,574	40,
Net realized investment gains (losses)	627	1,
Net change in fair value of credit derivatives	(232,004)	740,
Other income	8,536	9,
Loss and loss adjustment expenses (recoveries)	55,138	38,
(Loss) income before provision for income taxes	(242,829)	764,
Net (loss) income	(169,209)	545,
(Loss) earnings per share(1):		
Basic	$ (2.11)	$ 6
Diluted	$ (2.11)	$ 5
Dividends per share	$ 0.045	$ 0.0

2007	**First**	**Secon**
Gross written premiums	$ 55,167	$ 71,75
Net written premiums	51,365	68,49
Net earned premiums	37,047	37,98
Net investment income	31,482	30,86
Net realized investment (losses) gains	(279)	(1,54
Net change in fair value of credit derivatives	7,864	(1,69
Other income		
Loss and loss adjustment expenses (recoveries)	(4,023)	(9,75
Income (loss) before provision for income taxes	40,327	38,33
Net income (loss)	38,951	32,80
Earnings (loss) per share(1):		
Basic	$ 0.58	$ 0.4
Diluted	$ 0.57	$ 0.4
Dividends per share	$ 0.04	$ 0.0

(1) Per share amounts for the quarters and the full years have each been calculated separately. Accor because of differences in the average common shares outstanding during each period and, with r inclusion of the effect of potentially dilutive securities only in the periods in which such effect w

Gross and net written premiums in the fourth quarter of 2007 include the impact of the Ambac portfol

The net change in fair value of credit derivatives in the third and fourth quarters of 2007 reflected the portfolio. These losses resulted from the significant widening of credit spreads observed in the third and fo Note 4.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTIN

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Assured Guaranty Ltd.'s management, with the Officer and Chief Financial Officer, has evaluated the effectiveness of Assured Guaranty Ltd.'s disclosure 15(e) and 15d 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of th evaluation, Assured Guaranty Ltd.'s Chief Executive Officer and Chief Financial Officer have concluded t disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a Guaranty Ltd. (including its consolidated subsidiaries) in the reports that it files or submits under the Exch control over financial reporting and PricewaterhouseCooper LLP's report of independent registered public and Supplementary Data.

There has been no change in the Company's internal controls over financial reporting during the Com affected, or is reasonably likely to materially affect, the Company's internal controls over financial reportin

ITEM 9B. OTHER INFORMATION

NONE

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Code of Conduct

The Company has adopted a Code of Conduct, which sets forth standards by which all Assured Guara work for the Company. The Company has posted this Code of Conduct on its internet site (*www.assuredgu* Governance/Code of Conduct). The Company intends to disclose on its internet site any amendments to, o publicly disclosed pursuant to the rules of the SEC or the NYSE. Information pertaining to this item is inco No. 1: Election of Directors", "Corporate Governance Did our insiders comply with Section 16(a) benefic are Directors Nominated?" and "Corporate Governance The committees of the Board The Audit Commit Meeting of Shareholders, which involves the election of directors and will be filed with the SEC not later t regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

This item is incorporated by reference to the section entitled "Executive Compensation", "Corporate C participation" and "Corporate Governance Director Compensation" of the definitive proxy statement for t filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEM

This item is incorporated by reference to the sections entitled "Information about our Common Share the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with th pursuant to regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR

This item is incorporated by reference to the sections entitled "Corporate Governance What is our rel do we use to implement it?", "Corporate Governance What related person transactions do we have?" and ' proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not late regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

This item is incorporated by reference to the section entitled "Proposal No. 4:Ratification of Appointm Information" of the definitive proxy statement for the Annual General Meeting of Shareholders, which wil of the fiscal year pursuant to regulation 14A.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedules and Exhibits

1. Financial Statements

The following financial statements of Assured Guaranty Ltd. have been included in Item 8 hereof:

2. Financial Statement Schedules

The following financial statement schedules are filed as part of this report:

Schedule	Title
II	Condensed Financial Information of Registrant *(Parent Company Only)*
III	Supplementary Insurance Information
IV	Reinsurance
V	Valuation and Qualifying Accounts

The report of the Registrant's independent registered public accounting firm with respect to the above
schedules.

All other schedules are omitted because they are not applicable or the required information is shown i

3. Exhibits

Exhibit Number	Description of Document
3.1	Certificate of Incorporation and Memorandum of Association of the Registrant (Incorporated by reference to exhibit 3.1 to Form S-1 of the Company (#333-111491))
3.2	Bye-laws of the Registrant (Incorporated by reference to exhibit 3.2 to Form S-1 of the Company (#333-111491))
4.1	Specimen Common Share Certificate (Incorporated by reference to exhibit 4.1 to Form S-1 of the Company (#333-111491))
4.2	Certificate of Incorporation and Memorandum of Association of the Registrant (See exhibit 3.1)

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Exhibit Number	Description of Document
4.3	Bye-laws of the Registrant (See exhibit 3.2)
4.4	Indenture, dated as of May 1, 2004, among the Company, Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to exhibit 4.1 of Form 10-Q for the quarter ended March 31, 2004)
4.5	Indenture, dated as of December 1, 2006, entered into among Assured Guaranty Ltd., Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to exhibit 4.1 to the current report on form 8-K filed on December 20, 2006)
4.6	First Supplemental Subordinated Indenture, dated as of December 20, 2006, entered into among Assured Guaranty Ltd., Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to exhibit 4.2 to the current report on form 8-K filed on December 20, 2006)
4.7	Replacement Capital Covenant, dated as of December 20, 2006, between Assured Guaranty U.S. Holdings Inc. and Assured Guaranty Ltd., in favor of and for the benefit of each Covered Debtholder (as defined therein) (Incorporated by reference to exhibit 4.1 to the current report on form 8-K filed on December 20, 2006)
10.1	Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.6 of Form 10-Q for the quarter ended June 30, 2004)*
10.2	Master Separation Agreement dated April 27, 2004, among the Company, ACE Limited, ACE Financial Services Inc. and ACE Bermuda Insurance Ltd. (Incorporated by reference to exhibit 10.7 to Form S-1 of the Company (#333-111491))
10.3	Transition Services Agreement, dated April 27, 2004, between the Company and ACE Limited (Incorporated by reference to exhibit 10.8 to Form S-1 of the Company (#333-111491))
10.4	Registration Rights Agreement, dated April 27, 2004, among the Company, ACE Limited and ACE Bermuda Insurance Ltd. (Incorporated by reference to exhibit 10.9 to Form S-1 of the Company (#333-111491))
10.5	Tax Allocation Agreement, dated April 27, 2004, among the Company, ACE Financial Services Inc., ACE Prime Holdings, Inc., Assured Guaranty US Holdings Inc., Assured Guaranty Corp., AGR Financial Products Inc. and ACE Risk Assurance Company (Incorporated by reference to exhibit 10.11 to Form S-1 of the Company (#333-111491))
10.6	Credit Agreement with Deutsche Bank AG, as Agent, as amended (Incorporated by reference to exhibit 10.21 to Form S-1 of the Company (#333-111491))
10.7	Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE American Insurance Company (Incorporated by reference to exhibit 10.29 to Form S-1 of the Company (#333-111491))
10.8	Guaranty by Assured Guaranty Re International Ltd. in favor of Assured Guaranty Re Overseas Ltd. (Incorporated by reference to exhibit 10.31 to Form S-1 of the Company (#333-111491))
10.9	Guaranty by Assured Guaranty Re Overseas Ltd. in favor of Assured Guaranty Mortgage Insurance Company (Incorporated by reference to exhibit 10.32 to Form S-1 of the Company (#333-111491))
10.10	Retrocessional Memorandum between ACE Bermuda Insurance Ltd. and Assured Guaranty Re International Ltd. (Incorporated by reference to exhibit 10.34 to Form S-1 of the Company (#333-111491))

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Exhibit Number	Description of Document
10.11	Quota Share Reinsurance Agreement between Assured Guaranty Re Overseas Ltd. and JCJ Insurance Company (Incorporated by reference to exhibit 10.35 to Form S-1 of the Company (#333-111491))
10.12	Quota Share Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE INA Overseas Insurance Company Ltd. (Incorporated by reference to exhibit 10.37 to Form S-1 of the Company (#333-111491))
10.13	Quota Share Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE American Insurance Company (Incorporated by reference to exhibit 10.38 to Form S-1 of the Company (#333-111491))
10.14	Assignment and Indemnification Agreement between Assured Guaranty Re Overseas Ltd. and ACE INA Overseas Insurance Company Ltd. (Incorporated by reference to exhibit 10.41 to Form S-1 of the Company (#333-111491))
10.15	UK Title Quota Share Reinsurance Agreement between ACE European Markets Insurance Ltd. and Assured Guaranty Re International Ltd. (Incorporated by reference to exhibit 10.45 to Form S-1 of the Company (#333-111491))
10.16	Aggregate Loss Portfolio Reinsurance Agreement between Commercial Guaranty Assurance, Ltd. and Assured Guaranty Re Overseas Ltd. (Incorporated by reference to exhibit 10.49 to Form S-1 of the Company (#333-111491))
10.17	Quota Share Retrocession Agreement, dated April 28, 2004, between Assured Guaranty Re Overseas Ltd. and ACE Tempest Re USA, Inc. for and on behalf of ACE American Insurance Company (Incorporated by reference to exhibit 10.13 of Form 10-Q for the quarter ended June 30, 2004)
10.18	Quota Share Retrocession Agreement, dated April 28, 2004, between Assured Guaranty Corp. and ACE Tempest Re USA, Inc. for and on behalf of ACE American Insurance Company (Incorporated by reference to exhibit 10.14 of Form 10-Q for the quarter ended June 30, 2004)
10.19	Quota Share Retrocession Agreement, dated April 28, 2004, between Assured Guaranty Re Overseas Ltd. and ACE INA Overseas Insurance Company Ltd. (Incorporated by reference to exhibit 10.15 of Form 10-Q for the quarter ended June 30, 2004)
10.20	Commutation and Release Agreement, dated April 28, 2004, between Westchester Fire Insurance Company and Assured Guaranty Re Overseas Ltd. (Incorporated by reference to exhibit 10.16 of Form 10-Q for the quarter ended June 30, 2004)
10.21	Assignment and Termination Agreement, dated April 28, 2004, among Assured Guaranty Re International Ltd., ACE Bermuda Insurance Ltd. and ACE Capital Title Reinsurance Company (Incorporated by reference to exhibit 10.18 of Form 10-Q for the quarter ended June 30, 2004)
10.22	Assignment Agreement, dated April 28, 2004, among Assured Guaranty Re Overseas Ltd., ACE European Markets Insurance Limited and ACE Bermuda Insurance Ltd. (Incorporated by reference to exhibit 10.19 of Form 10-Q for the quarter ended June 30, 2004)
10.23	Assignment Agreement, dated April 15, 2004, among Assured Guaranty Re Overseas Ltd., ACE Bermuda Insurance Ltd. and ACE Capital Title Reinsurance Company (Incorporated by reference to exhibit 10.20 of Form 10-Q for the quarter ended June 30, 2004)
10.24	Summary of Annual Compensation*

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Exhibit Number	Description of Document
10.25	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.34 of Form 10-K for the year ended December 31, 2005) *
10.26	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.35 of Form 10-K for the year ended December 31, 2005) *
10.27	Restricted Stock Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.1 of Form 10-Q for the quarter ended June 30, 2006)*
10.28	Restricted Stock Unit Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long Term Incentive Plan (Incorporated by reference to exhibit 10.37 of Form 10-K for the year ended December 31, 2005)*
10.29	Restricted Stock Agreement under Assured Guaranty Ltd. 2004 Long Term Incentive Plan(Incorporated by reference to exhibit 10.38 of Form 10-K for the year ended December 31, 2005)*
10.30	Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long Term Incentive Plan(Incorporated by reference to exhibit 10.39 of Form 10-K for the year ended December 31, 2005)*
10.31	Assured Guaranty Ltd. Employee Stock Purchase Plan (Incorporated by reference to exhibit 10.40 of Form 10-K for the year ended December 31, 2004)*
10.32	Form of Indemnification Agreement between the Company and its executive officers and directors(Incorporated by reference to exhibit 10.42 of Form 10-K for the year ended December 31, 2005)
10.33	Put Agreement between Assured Guaranty Corp. and Woodbourne Capital Trust [I][II][III][IV] (Incorporated by reference to exhibit 10.6 of Form 10-Q for the quarter ended March 31, 2005)
10.34	Custodial Trust Expense Reimbursement Agreement (Incorporated by reference to exhibit 10.7 of Form 10-Q for the quarter ended March 31, 2005)
10.35	Assured Guaranty Corp. Articles Supplementary Classifying and Designating Series of Preferred Stock as Series A Perpetual Preferred Stock, Series B Perpetual Preferred Stock, Series C Perpetual Preferred Stock, Series D Perpetual Preferred Stock (Incorporated by reference to exhibit 10.8 of Form 10-Q for the quarter ended March 31, 2005)
10.36	Assured Guaranty Corp. Supplemental Executive Retirement Plan Highlights Booklet 2006 Plan Year (Incorporated by reference to exhibit 10.1 of Form 8-K filed on December 28, 2005)*
10.37	Assured Guaranty Ltd. Supplemental Employee Retirement Plan, as amended through the second amendment (Incorporated by reference to exhibit 10.2 of Form 8-K filed on December 28, 2005)*
10.38	Assured Guaranty Ltd. Performance Retention Plan (As Amended and Restated as of February 14, 2008 for Awards Granted during 2007) (Incorporated by reference to Exhibit 10.50 of Form 10-K for the year ended December 31, 2007)*
10.39	Five Year Cliff Vest Restricted Stock Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.1 of Form 10-Q for the quarter ended March 31, 2006)*

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Exhibit Number	Description of Document
10.40	Employment agreement dated as of October 5, 2006, between Assured Guaranty Ltd., Assured Guaranty Corp. and Robert Bailenson (Incorporated by reference to exhibit 10.1 of Form 10-Q for the quarter ended September 30, 2006)*
10.41	Share Purchase Agreement, dated December 7, 2006, between Assured Guaranty US Holdings Inc. and ACE Bermuda Insurance Ltd. (Incorporated by reference to exhibit 99.1 of Form 8-K filed on December 13, 2006)
10.42	$300,000,000 Revolving Credit Facility Credit Agreement (Incorporated by reference to exhibit 99.1 of Form 8-K filed on November 9, 2006)
10.43	Assured Guaranty Corp. Supplemental Executive Retirement Plan Amendment No. 1(Incorporated by reference to exhibit 10.2 of Form 10-Q for the quarter ended March 31, 2007)*
10.44	Restricted Stock Unit Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.1 of Form 10-Q for the quarter ended June 30, 2007)*
10.45	$200.0 million soft-capital credit facility (Incorporated by reference to exhibit 10.2 of Form 10-Q for the quarter ended June 30, 2007)
10.46	Assured Guaranty Ltd. Performance Retention Plan (As Amended and Restated as of February 14, 2008) (Incorporated by reference to Exhibit 10.58 of Form 10-K for the year ended December 31, 2007)*
10.47	Terms of Performance Retention Award Five Year Cliff Vest Granted on February 14, 2008 (Incorporated by reference to Exhibit 10.59 of Form 10-K for the year ended December 31, 2007)*
10.48	Form of Award Letter for Performance Retention Award Five Year Cliff Vest Granted on February 14, 2008 (Incorporated by reference to Exhibit 10.60 of Form 10-K for the year ended December 31, 2007)*
10.49	Terms of Performance Retention Award Four Year Installment Vesting Granted on February 14, 2008 (Incorporated by reference to Exhibit 10.61 of Form 10-K for the year ended December 31, 2007) *
10.50	Form of Award Letter for Performance Retention Award Four Year Installment Vesting Granted on February 14, 2008 (Incorporated by reference to Exhibit 10.62 of Form 10-K for the year ended December 31, 2007)*
10.51	2007 Restricted Stock Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.63 of Form 10-K for the year ended December 31, 2007)*
10.52	Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.64 of Form 10-K for the year ended December 31, 2007)*
10.53	Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.65 of Form 10-K for the year ended December 31, 2007)*
10.54	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.66 of Form 10-K for the year ended December 31, 2007)*

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Exhibit Number	Description of Document
10.55	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.67 of Form 10-K for the year ended December 31, 2007) *
10.56	Investment Agreement dated as of February 28, 2008 between Assured Guaranty Ltd. and WLR Recovery Fund IV, L.P. (Incorporated by reference to Exhibit 10.68 of Form 10-K for the year ended December 31, 2007)
10.57	Director Compensation Summary (Incorporated by reference to exhibit 10.1 of Form 10-Q for the quarter ended March 31, 2008)*
10.58	Restricted Stock Unit Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.1 of Form 10-Q for the quarter ended June 30, 2008)*
10.59	Restricted Stock Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to exhibit 10.2 of Form 10-Q for the quarter ended June 30, 2008)*
10.60	Form of amendment to Restricted Stock Unit Awards for Outside Directors (Incorporated by reference to exhibit 10.3 of Form 10-Q for the quarter ended June 30, 2008)*
10.61	Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as amended August 5, 2008 (Incorporated by reference to exhibit 10.4 of Form 10-Q for the quarter ended June 30, 2008)*
10.62	Assured Guaranty Ltd. Supplemental Employee Retirement Plan, as Amended and Restated Effective January 1, 2009*
10.63	Assured Guaranty Corp. Supplemental Employee Retirement Plan, as Amended and Restated Effective January 1, 2009*
10.64	Employment Agreement between Dominic J. Frederico and the Registrant*
10.65	Employment Agreement between Michael J. Schozer and the Registrant*
10.66	Employment Agreement between Robert B. Mills and the Registrant*
10.67	Employment Agreement between James M. Michener and the Registrant*
10.68	Employment Agreement between Robert A. Bailenson and the Registrant*
10.69	Assured Guaranty Ltd. Executive Officer Recoupment Policy*
10.70	Form of Acknowledgement of Assured Guaranty Ltd. Executive Officer Recoupment Policy*
10.71	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement*
10.72	Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement*
10.73	Terms of Performance Retention Award Four Year Installment Vesting Granted on February 5, 2009*
10.74	Approval dated September 16, 2008 pursuant to Investment Agreement dated as of February 28, 2008 with WLR Recovery Fund IV, L.P. Pursuant to the Investment Agreement, WLR Recovery Fund IV, L.P. and other funds affiliated with WL Ross & Co. LLC (Incorporated by reference to exhibit 99.1 of current report on Form 8-K filed on September 19, 2008)

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Exhibit Number	Description of Document
10.75	Purchase Agreement among Dexia Holdings Inc., Dexia Credit Local S.A. and the Company dated as of November 14, 2008 (Incorporated by reference to exhibit 99.1 of current report on Form 8-K filed on November 17, 2008)
10.76	Amendment to Investment Agreement dated as of November 13, 2008 between the Company and WLR Recovery Fund IV, L.P. (Incorporated by reference to exhibit 99.1 of current report on Form 8-K filed on November 17, 2008)
14.1	Code of Conduct (Incorporated by reference to exhibit 14.1 of Form 10-K for the year ended December 31, 2004)
21.1	Subsidiaries of the registrant
23.1	Accountants Consent
31.1	Certification of CEO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Assured Guaranty Corp. 2008 Consolidated Financial Statements

* Management contract or compensatory plan

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Regis
undersigned, thereunto duly authorized.

ASSURED GUARANTY LTD.

By: /s/ DOMINIC J. FREDERICO

Name: Dominic J. Frederico
Title: *President and Chief Executive Offic*

Date: February 25, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed belo
the capacities and on the dates indicated.

Name	Position	
/s/ WALTER A. SCOTT Walter A. Scott	Chairman of the Board; Director	Februa
/s/ DOMINIC J. FREDERICO Dominic J. Frederico	President and Chief Executive Officer; Director	Februa
/s/ ROBERT B. MILLS Robert B. Mills	Chief Financial Officer (Principal Financial and Duly Authorized Officer)	Februa
/s/ NEIL BARON Neil Baron	Director	Februa
/s/ G. LAWRENCE BUHL G. Lawrence Buhl	Director	Februa
/s/ STEPHEN A. COZEN Stephen A. Cozen	Director	Februa
/s/ FRANCISCO L. BORGES Francisco L. Borges	Director	Februa

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Name	Position
/s/ PATRICK W. KENNY Patrick W. Kenny	Director
/s/ DONALD H. LAYTON Donald H. Layton	Director
/s/ ROBIN MONRO-DAVIES Robin Monro-Davies	Director
/s/ MICHAEL O'KANE Michael O'Kane	Director
/s/ WILBUR L. ROSS, JR. Wilbur L. Ross, Jr.	Director

Report of Independent Registered Public Account
on
Financial Statement Schedules

To the Board of Directors
of Assured Guaranty Ltd.:

Our audits of the consolidated financial statements and of the effectiveness of internal control over fir 2009 appearing in the 2008 Annual Report to Shareholders of Assured Guaranty Ltd. also included an audi of this Form 10K. In our opinion, these financial statement schedules present fairly, in all material respects with the related consolidated financial statements.

PricewaterhouseCoopers LLP
New York, New York
February 25, 2009

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Schedule II

Assured Guaranty Ltd. (Parent Company)
Condensed Balance Sheets
(in thousands of U.S. dollars)

Assets	
Investments in subsidiaries and affiliates on equity basis	
Short-term investments, at cost which approximates fair value	
Other assets	
Total assets	
Liabilities and shareholders' equity	
Liabilities	
Other liabilities	
Total liabilities	
Shareholders' equity	
Common stock	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income	
Total shareholders' equity	
Total liabilities and shareholders' equity	

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Schedule II

Assured Guaranty Ltd. (Parent Company)
Condensed Statements of Operations
For the years ended December 31, 2008, 2007 an
(in thousands of U.S. dollars)

	2008
Revenues	
Equity in earnings of subsidiaries	$ 85,5
Net investment income	5
Other income	
Total revenues	**86,1**
Expenses	
Other operating expenses	17,2
Interest expense	
Total expenses	**17,2**
Income (loss) before provision for income taxes	**68,8**
Total provision for income taxes	
Net income (loss)	**$ 68,8**

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Schedule II

Assured Guaranty Ltd. (Parent Company)
Condensed Statements of Cash Flows
For the years ended December 31, 2008, 2007 an
(in thousands of U.S. dollars)

		2008
Dividends received from Assured Guaranty Re Ltd.	$	31,
Other operating activities		(9,
Net cash flows provided by operating activities		**21,**
Cash flows from investing activities		
Capital contribution to Assured Guaranty Re Ltd.		(150,
Capital contribution to Assured Guaranty US Holdings Inc.		(100,
Sales (purchases) of short-term investments, net		
Net cash flows used in investing activities		**(249,**
Financing activities		
Net proceeds from issuance of common shares		248,
Repurchases of common stock		
Dividends paid(1)		(16,
Repayment of note payable		
Proceeds from employee stock purchase plan		
Share activity under option and incentive plans		(4,
Net cash flows provided by (used in) financing activities		**228,**
Cash and cash equivalents at beginning of period		
Cash and cash equivalents at end of period	**$**	

(1) 2008 and 2007 include dividends of $964 thousand and $857 thousand, respectively, paid to Ass

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Schedule III

Supplementary Insurance Information
(in millions of U.S. dollars)(1)(2)

	DAC	UPR	Loss Reserves	Premiums Written	Premiums Earned	Loss an Loss Adjustm Expens (Recover
	As of December 31, 2008				**For the Year**	
Financial guaranty direct	$ 95.7	$ 626.7	$ 91.8	$ 484.7	$ 90.0	$ 19
Financial guaranty reinsurance	192.4	591.1	97.9	129.3	165.9	6
Mortgage guaranty	0.5	15.8	2.6	0.7	5.7	
Other		0.1	4.5	3.5		
Total	**$ 288.6**	**$ 1,233.7**	**$ 196.8**	**$ 618.3**	**$ 261.4**	**$ 26**
	As of December 31, 2007				**For the Year**	
Financial guaranty direct	$ 35.2	$ 237.4	$ 33.5	$ 167.1	$ 52.8	$ 2
Financial guaranty reinsurance	223.1	628.9	80.3	251.0	88.9	(2
Mortgage guaranty	1.0	20.7	2.9	2.7	17.5	
Other		0.2	8.8	3.5		
Total	**$ 259.3**	**$ 887.2**	**$ 125.6**	**$ 424.5**	**$ 159.3**	**$**
	As of December 31, 2006				**For the Year**	
Financial guaranty direct	$ 34.3	$ 126.6	$ 4.6	$ 124.8	$ 27.8	$
Financial guaranty reinsurance	179.3	468.2	94.8	123.9	94.4	1
Mortgage guaranty	3.3	35.6	2.3	8.4	22.7	
Other	0.1	0.6	14.2	4.1		
Total	**$ 217.0**	**$ 631.0**	**$ 115.9**	**$ 261.3**	**$ 144.8**	**$ 1**

(1) Certain 2007 and 2006 amounts have been reclassified to conform to the current year presentation.

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

(3) During 2006, the Company implemented a new operating expense allocation methodology to more closely a
methodology was based on a comprehensive study which was based on departmental time estimates and hea

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Schedule IV

Reinsurance
Net Earned Premiums
(in millions of U.S. dollars)(1)(2)

	For the Year En		
Type of Business:	**Direct**	**Ceded**	**Assun**
Financial guaranty	$93.4	$ 4.7	$ 16
Mortgage guaranty			
Other		3.6	
Total	$93.4	$ 8.3	$ 17

	For the Year En		
Financial guaranty	$55.0	$ 3.5	$
Mortgage guaranty			
Other		4.1	
Total	$55.0	$ 7.6	$11

	For the Year En		
Financial guaranty	$28.5	$ 1.5	$
Mortgage guaranty		2.3	
Other		6.6	
Total	$28.5	$10.4	$1

(1) Certain 2007 and 2006 amounts have been reclassified to conform to the current year presentatio

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

NM = Not meaningful

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Schedule V

Valuation and Qualifying Accounts
(in millions of U.S. dollars)

Valuation and qualifying accounts for the years ended December 31, 2008, 2007 and 2006 are as follo

		Balance at beginning of year
2008	Tax valuation allowance	$ 7.0
	Allowance for Uncollectible Reinsurance	
	Total	$ 7.0
2007	Tax valuation allowance	$ 7.0
	Allowance for Uncollectible Reinsurance	
	Total	$ 7.0
2006	Tax valuation allowance	$ 7.0
	Allowance for Uncollectible Reinsurance	
	Total	$ 7.0

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