

ASSURED GUARANTY LTD
Form 10-Q
May 10, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2006

OR

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

transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of incorporation)

98-0429991

(I.R.S. employer identification no.)

30 Woodbourne Avenue
Hamilton HM 08
Bermuda

(address of principal executive office)

(441) 299-9375

(Registrants telephone number, including area code)

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

YES ☒ NO ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

The number of registrant's Common Shares (\$0.01 par value) outstanding as of May 1, 2006 was 73,930,701.

ASSURED GUARANTY LTD.

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements****Assured Guaranty Ltd.****Consolidated Balance Sheets**

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

(Unaudited)

| | March 31, 2006 | December 31, 2005 |
|--|---------------------|----------------------|
| Assets | | |
| Fixed maturity securities, at fair value (amortized cost: \$2,090,157 in 2006 and \$2,082,363 in 2005) | \$ 2,114,115 | \$ 2,133,997 |
| Short-term investments, at cost which approximates fair value | 134,981 | 115,826 |
| Total investments | 2,249,096 | 2,249,823 |
| Cash and cash equivalents | 3,746 | 6,190 |
| Accrued investment income | 21,767 | 22,676 |
| Deferred acquisition costs | 195,897 | 193,442 |
| Prepaid reinsurance premiums | 13,344 | 12,478 |
| Reinsurance recoverable on ceded losses | 12,158 | 12,350 |
| Premiums receivable | 26,984 | 33,011 |
| Goodwill | 85,417 | 85,417 |
| Unrealized gains on derivative financial instruments | 52,202 | 53,037 |
| Current income taxes receivable | 3,101 | 3,005 |
| Other assets | 14,281 | 17,694 |
| Total assets | \$ 2,677,993 | \$ 2,689,123 |
| Liabilities and shareholders' equity | | |
| Liabilities | | |
| Unearned premium reserves | \$ 540,744 | \$ 537,149 |
| Reserves for losses and loss adjustment expenses | 117,171 | 121,219 |
| Profit commissions payable | 28,048 | 52,993 |
| Reinsurance balances payable | 9,060 | 3,724 |
| Deferred income taxes | 25,390 | 26,629 |
| Funds held by Company under reinsurance contracts | 21,962 | 19,186 |
| Unrealized losses on derivative financial instruments | 11,788 | 12,652 |
| Long-term debt | 197,352 | 197,344 |
| Other liabilities | 53,061 | 56,714 |
| Total liabilities | 1,004,576 | 1,027,610 |
| Commitments and contingencies | | |
| Shareholders' equity | | |
| Common stock (\$0.01 par value, 500,000,000 shares authorized; 73,801,852 and 74,761,577 shares issued and outstanding in 2006 and 2005) | 738 | 748 |
| Additional paid-in capital | 870,415 | 881,998 |
| Unearned stock grant compensation | | (14,756) |
| Retained earnings | 779,939 | 747,691 |
| Accumulated other comprehensive income | 22,325 | 45,832 |
| Total shareholders' equity | 1,673,417 | 1,661,513 |
| Total liabilities and shareholders' equity | \$ 2,677,993 | \$ 2,689,123 |

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

Assured Guaranty Ltd.

Consolidated Statements of Operations and Comprehensive Income

(in thousands of U.S. dollars except per share amounts)

(Unaudited)

| | Three Months Ended March 31, | | |
|--|---------------------------------|--|------------------|
| | 2006 | | 2005 |
| Revenues | | | |
| Gross written premiums | \$ 55,384 | | \$ 78,097 |
| Ceded premiums | (4,600) | | (1,628) |
| Net written premiums | 50,784 | | 76,469 |
| Increase in net unearned premium reserves | (2,729) | | (28,379) |
| Net earned premiums | 48,055 | | 48,090 |
| Net investment income | 26,238 | | 23,132 |
| Net realized investment (losses) gains | (1,006) | | 1,791 |
| Unrealized gain on derivative financial instruments | 29 | | 3,072 |
| Other income | | | 283 |
| Total revenues | 73,316 | | 76,368 |
| Expenses | | | |
| Loss and loss adjustment expenses | (382) | | (9,396) |
| Profit commission expense | 1,308 | | 987 |
| Acquisition costs | 10,785 | | 10,216 |
| Other operating expenses | 17,150 | | 14,508 |
| Interest expense | 3,375 | | 3,296 |
| Other expense | 614 | | |
| Total expenses | 32,850 | | 19,611 |
| Income before provision for income taxes | 40,466 | | 56,757 |
| Provision for income taxes | | | |
| Current | 2,643 | | 5,083 |
| Deferred | 2,941 | | 7,326 |
| Total provision for income taxes | 5,584 | | 12,409 |
| Net income | 34,882 | | 44,348 |
| Other comprehensive income, net of taxes | | | |
| Unrealized holding losses on fixed maturity securities arising during the period | (24,060) | | (20,638) |
| Reclassification adjustment for realized losses (gains) included in net income | 658 | | (1,501) |
| Change in net unrealized gains on fixed maturity securities | (23,402) | | (22,139) |
| Cash flow hedge | (105) | | (105) |
| Other comprehensive loss, net of tax | (23,507) | | (22,244) |
| Comprehensive income | \$ 11,375 | | \$ 22,104 |
| Earnings per share: | | | |
| Basic | \$ 0.47 | | \$ 0.60 |
| Diluted | \$ 0.47 | | \$ 0.59 |
| Dividends per share | \$ 0.035 | | \$ 0.03 |

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

Assured Guaranty Ltd.
Consolidated Statements of Shareholders' Equity
For the Three Months Ended March 31, 2006
(in thousands of U.S. dollars except per share amounts)
(Unaudited)

| | Common Stock | Additional Paid-in Capital | Unearned Stock Grant Compensation | Retained Earnings | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|---|-----------------|----------------------------------|---|----------------------|---|----------------------------------|
| Balance, December 31, 2005 | \$ 748 | \$ 881,998 | \$ (14,756) | \$ 747,691 | \$ 45,832 | \$ 1,661,513 |
| Net income | | | | 34,882 | | 34,882 |
| Dividends (\$0.035 per share) | | | | (2,634) | | (2,634) |
| Share activity under options and incentive plans, net | | (622) | | | | (622) |
| Cash flow hedge, net of tax of \$(56) | | | | | (105) | (105) |
| Unrealized loss on fixed maturity securities, net of tax of \$(4,066) | | | | | (23,402) | (23,402) |
| Reclassification due to adoption of FAS 123R | (10) | (14,746) | 14,756 | | | |
| Share-based compensation | | 3,785 | | | | 3,785 |
| Balance, March 31, 2006 | \$ 738 | \$ 870,415 | \$ | \$ 779,939 | \$ 22,325 | \$ 1,673,417 |

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

Assured Guaranty Ltd.
Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|------------------|
| | 2006 | 2005 |
| Operating activities | | |
| Net income | \$ 34,882 | \$ 44,348 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Non-cash interest and operating expenses | 3,893 | 1,493 |
| Net amortization of premium on fixed maturity securities | 1,521 | 1,673 |
| Provision for deferred income taxes | 2,941 | 7,326 |
| Net realized investment (losses) gains | 1,006 | (1,791) |
| Change in unrealized gains on derivative financial instruments | (29) | (3,072) |
| Change in deferred acquisition costs | (2,455) | (5,845) |
| Change in accrued investment income | 909 | (1,206) |
| Change in premiums receivable | 6,027 | (1,913) |
| Change in prepaid reinsurance premiums | (866) | 924 |
| Change in unearned premium reserves | 3,595 | 27,464 |
| Change in reserves for losses and loss adjustment expenses, net | 1,480 | (2,303) |
| Change in profit commissions payable | (24,945) | (17,790) |
| Change in funds held by Company under reinsurance contracts | 2,776 | 1,631 |
| Change in current income taxes | (96) | 1,017 |
| Tax benefit from employee stock options | | 4,059 |
| Other | (10,229) | 1,166 |
| Net cash flows provided by operating activities | 20,410 | 57,181 |
| Investing activities | | |
| Fixed maturity securities: | | |
| Purchases | (260,522) | (317,195) |
| Sales | 259,952 | 169,515 |
| (Purchases) sales of short-term investments, net | (19,238) | 112,309 |
| Net cash flows used in investing activities | (19,808) | (35,371) |
| Financing activities | | |
| Dividends paid | (2,632) | (2,274) |
| Share activity under option and incentive plans | (436) | |
| Repurchases of common stock | | (14,740) |
| Net cash flows used in financing activities | (3,068) | (17,014) |
| Effect of exchange rate changes | 22 | (51) |
| (Decrease) increase in cash and cash equivalents | (2,444) | 4,745 |
| Cash and cash equivalents at beginning of period | 6,190 | 16,978 |
| Cash and cash equivalents at end of period | \$ 3,746 | \$ 21,723 |
| Supplementary cash flow information | | |
| Cash paid during the period for: | | |
| Income taxes | \$ 2,740 | \$ |

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

Assured Guaranty Ltd.
Notes to Consolidated Financial Statements
March 31, 2006
(Unaudited)

1. Business and Organization

Assured Guaranty Ltd. (the Company) is a Bermuda-based holding company which provides, through its operating subsidiaries, credit enhancement products to the public finance, structured finance and mortgage markets. Credit enhancement products are financial guarantees or other types of support, including credit derivatives, that improve the credit of underlying debt obligations. Assured Guaranty Ltd. applies its credit expertise, risk management skills and capital markets experience to develop insurance, reinsurance and derivative products that meet the credit enhancement needs of its customers. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more insurance policies that the ceding company has issued. A derivative is a financial instrument whose characteristics and value depend upon the characteristics and value of an underlying security. Assured Guaranty Ltd. markets its products directly to and through financial institutions, serving the U.S. and international markets. Assured Guaranty Ltd.'s financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. These segments are further discussed in Note 9.

Financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Financial guaranty insurance may be issued to the holders of the insured obligations at the time of issuance of those obligations, or may be issued in the secondary market to holders of public bonds and structured securities. A loss event occurs upon existing or anticipated credit deterioration, while a payment under a policy occurs when the insured obligation defaults. This requires the Company to pay the required principal and interest when due in accordance with the underlying contract. The principal types of obligations covered by the Company's financial guaranty direct and financial guaranty assumed reinsurance businesses are structured finance obligations and public finance obligations. Because both businesses involve similar risks, the Company analyzes and monitors its financial guaranty direct portfolio and financial guaranty assumed reinsurance portfolio on a coordinated basis.

Mortgage guaranty insurance is a specialized class of credit insurance that provides protection to mortgage lending institutions against the default of borrowers on mortgage loans that, at the time of the advance, had a loan to value in excess of a specified ratio. Reinsurance in the mortgage guaranty insurance industry is used to increase the insurance capacity of the ceding company, to assist the ceding company in meeting applicable regulatory and rating agency requirements, to augment the financial strength of the ceding company, and to manage the ceding company's risk profile. The Company provides mortgage guaranty protection on an excess of loss basis.

The Company has participated in several lines of business that are reflected in its historical financial statements but that the Company exited in connection with the IPO, including, but not limited to, equity layer credit protection, trade credit reinsurance and title reinsurance. These lines of business make up the Company's other segment.

2. Basis of Presentation

The unaudited interim consolidated financial statements, which include the accounts of the Company, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company's financial condition, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These

unaudited interim consolidated financial statements cover the three-month period ended March 31, 2006 (First Quarter 2006) and the three-month period ended March 31, 2005 (First Quarter 2005). Operating results for the three-month periods ended March 31, 2006 and 2005 are not necessarily indicative of the results that may be expected for a full year. Certain items in the prior year unaudited interim consolidated financial statements have been reclassified to conform with the current period presentation. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission.

Certain of the Company's subsidiaries are subject to U.S. income tax. The provision for income taxes is calculated in accordance with Statement of Financial Accounting Standards (FAS) FAS No. 109, Accounting for Income Taxes . The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due to the variability in changes in fair value of its derivative financial instruments. A discrete calculation of the provision is calculated for each interim period.

3. Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155) which amends FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133) and FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FAS 140), and addresses issues raised in FAS 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. The primary objectives of FAS 155 are: (i) with respect to FAS 133, to address the accounting for beneficial interests in securitized financial assets and (ii) with respect to FAS 140, eliminate a restriction on the passive derivative instruments that a qualifying special purpose entity may hold. FAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the implications of FAS 155 on its financial statements.

4. Impact of Reinsurance Transactions

To limit its exposure on assumed risks, at the time of the IPO, the Company entered into certain proportional and non-proportional retrocessional agreements with other insurance companies, primarily subsidiaries of ACE Limited (ACE), to cede a portion of the risk underwritten by the Company. In addition, the Company enters into reinsurance agreements with non-affiliated companies to limit its exposure to risk on an on-going basis.

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In the event that any or all of the reinsurers are unable to meet their obligations, the Company would be liable for such defaulted amounts. Direct, assumed, and ceded amounts were as follows:

| | Three Months Ended March 31, | |
|-----------------------------------|-----------------------------------|-------------|
| | 2006 | 2005 |
| | (in thousands of U.S. dollars) | |
| Premiums Written | | |
| Direct | \$ 30,248 | \$ 23,755 |
| Assumed | 25,136 | 54,342 |
| Ceded | (4,600) | (1,628) |
| Net | \$ 50,784 | \$ 76,469 |
| Premiums Earned | | |
| Direct | \$ 21,228 | \$ 21,230 |
| Assumed | 30,528 | 29,412 |
| Ceded | (3,701) | (2,552) |
| Net | \$ 48,055 | \$ 48,090 |
| Loss and Loss Adjustment Expenses | | |
| Direct | \$ (3,031) | \$ (2,067) |
| Assumed | 3,292 | (9,189) |
| Ceded | (643) | 1,860 |
| Net | \$ (382) | \$ (9,396) |

Net written premiums for First Quarter 2006 were \$50.8 million compared with \$76.5 million for First Quarter 2005. Gross written premiums from our financial guaranty direct operations increased \$6.4 million in 2006 compared with 2005, as we continue to execute our direct business strategy. Offsetting this increase was a \$10.4 million and \$4.8 million reduction in treaty and facultative assumed premiums, respectively. Further offsetting the financial guaranty direct increase was an excess of loss reinsurance transaction of \$16.3 million written during First Quarter 2005 in our mortgage guaranty segment.

Loss and loss adjustment expenses (LAE) were \$(0.4) million and \$(9.4) million for First Quarter 2006 and First Quarter 2005, respectively. During First Quarter 2006, the Company increased the financial guaranty reinsurance segment's case reserves \$2.6 million and also incurred and paid a \$0.6 million loss in this segment. Offsetting these increases was a \$3.2 million settlement of a sub-prime mortgage transaction, offset by a related \$0.7 million subrogation receivable and a \$4.5 million release of case reserves in our financial guaranty direct segment and a litigation recovery of \$1.2 million in our other segment. During First Quarter 2005 the Company recovered \$6.8 million relating to a reinsurance claim incurred in 1998 and 1999. This recovery was received in connection with the completion of two settlements and is shown in the statements of operations and comprehensive income in loss and loss adjusted expenses. Recovery efforts relating to this and other claims are continuing. In addition, during First Quarter 2005, the Company recovered \$1.1 million relating to a litigation recovery.

Reinsurance recoverable on ceded losses and LAE as of March 31, 2006 and December 31, 2005 were \$12.2 million and \$12.4 million, respectively and are all related to our other segment. Of these amounts, \$12.1 million and \$12.3 million, respectively, relate to reinsurance agreements with ACE.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| | 2006 | 2005 |
| Gross Written Premiums by Client | (\$ in millions) | |
| Financial Security Assurance Inc. | \$ 7.5 | \$ 22.2 |
| Ambac Assurance Corporation | 4.3 | 10.7 |
| MBIA Insurance Corporation | 3.5 | 4.6 |
| Financial Guaranty Insurance Company | 3.4 | 2.3 |

5. Commitments and Contingencies

Lawsuits arise in the ordinary course of the Company's business. It is the opinion of the Company's management, based upon the information available, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the Company's financial position, results of operations or liquidity, although an adverse resolution of a number of these items could have a material adverse effect on the Company's results of operations or liquidity in a particular quarter or fiscal year.

On April 10, 2006, the Company's wholly owned subsidiary, Assured Guaranty Re Overseas Ltd. (AGRO), and a number of other parties, completed a settlement with JP Morgan Chase & Co. and certain of its related entities and affiliated persons, all of which were among the defendants in the *In re: National Century Financial Enterprises Inc. Investment Litigation* now pending in the United States District Court for the Southern District of Ohio - Eastern District. AGRO received approximately \$8.0 million (pre-tax) in April 2006, from the settlement. AGRO originally paid claims in 1999 of approximately \$41.7 million (pre-tax) related to National Century Financial Enterprises Inc. To date, including the settlement described above, the Company has recovered \$14.5 million (pre-tax). This is a partial settlement of the litigation, and the litigation will continue against other parties.

In April 2005, Assured Guaranty Corp. (AGC) received a Notice of Order to Preserve (Order) from the Office of the Commissioner of Insurance, State of Georgia (Commissioner). The Order was directed to ACE Limited, and all affiliates and requires the preservation of documents and other items related to finite insurance and a broad group of other insurance and reinsurance agreements. Also in April 2005, AGC, and numerous other insurers, received a subpoena from the Commissioner related to the initial phase of the Commissioner's investigation into finite-risk transactions. The subpoena requests information on AGC's assumed and ceded reinsurance contracts in force during 2004. AGC is cooperating with the Commissioner.

In the ordinary course of their respective businesses, certain of the Company's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods. The amounts, if any, the Company will recover in these proceedings are uncertain, although recoveries in any one or more of these proceedings during any quarter or fiscal year could be material to the Company's results of operations in that particular quarter or fiscal year.

The Company is party to reinsurance agreements with all of the major monoline primary financial guaranty insurance companies. The Company's facultative and treaty agreements are generally subject to termination (i) upon written notice (ranging from 90 to 120 days) prior to the specified deadline for renewal, (ii) at the option of the primary insurer if the Company fails to maintain certain financial, regulatory and rating agency criteria which are equivalent to or more stringent than those the Company is otherwise required to maintain for its own compliance with state mandated insurance laws and to maintain a specified financial strength rating for the particular insurance subsidiary or (iii) upon certain changes of control of the Company. Upon termination under the conditions set forth in (ii) and (iii) above, the Company may be required (under some of its reinsurance agreements) to return to the primary insurer all statutory unearned premiums, less ceding commissions, attributable to reinsurance ceded pursuant to such agreements after which the Company would be released from liability with respect to the ceded business. Upon the occurrence of the conditions set forth in (ii) above, whether or not an agreement is terminated, the Company may be required to obtain a letter of credit or alternative form of security to collateralize its obligation to perform under such agreement or it may be obligated to increase the level of ceding commission paid.

6. Long-Term Debt and Credit Facilities

The Company's unaudited interim consolidated financial statements include long-term debt used to fund the Company's insurance operations, and related interest expense, as described below.

Senior Notes

On May 18, 2004, Assured Guaranty US Holdings Inc., a subsidiary of the Company, issued \$200.0 million of 7.0% Senior Notes due 2034 for net proceeds of \$197.3 million. The proceeds of the offering were used to repay substantially all of a \$200.0 million promissory note issued to a subsidiary of ACE in April 2004 as part of the initial public offering (IPO) related formation transactions. The coupon on the Senior Notes is 7.0%, however, the effective rate will be approximately 6.4%, taking into account the effect of a cash flow hedge executed by the Company in March 2004. The Company recorded interest expense of \$3.3 million, including \$0.2 million of amortized gain on the cash flow hedge, for both the three months ended March 31, 2006 and 2005. These Senior Notes are fully and unconditionally guaranteed by Assured Guaranty Ltd.

Credit Facilities

\$300.0 million Credit Facility

On April 15, 2005, Assured Guaranty Ltd. and certain of its subsidiaries entered into a \$300.0 million three-year unsecured revolving credit facility (the "\$300.0 million credit facility") with a syndicate of banks, for which ABN AMRO Incorporated and Bank of America, N.A. acted as lead arrangers and KeyBank National Association (KeyBank) acted as syndication agent. Under the \$300.0 million credit facility, each of AGC, AG (UK), a subsidiary of AGC organized under the laws of the United Kingdom, Assured Guaranty Ltd., Assured Guaranty Re Ltd. (AG Re) a subsidiary of the Company and AGRO are entitled to request the banks to make loans to such borrower or to request that letters of credit be issued for the account of such borrower. Two letters of credit have been issued, both on behalf of AGRO, with an aggregate stated amount of approximately \$20.7 million.

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

At the closing of the \$300.0 million credit facility, (i) AGC guaranteed the obligations of AG (UK) under such facility, (ii) Assured Guaranty Ltd. guaranteed the obligations of AG Re and AGRO under such facility and agreed that, if the Company Consolidated Assets (as defined in the related credit agreement) of AGC and its subsidiaries were to fall below \$1.2 billion, it would, within 15 days, guarantee the obligations of AGC and AG (UK) under such facility and (iii) Assured Guaranty Overseas US Holdings Inc., as a Material Non-AGC Subsidiary (as defined in the related credit agreement), guaranteed the obligations of Assured Guaranty Ltd., AG Re and AGRO under such facility. Subsequently, AG Re and AGRO, as Material Non-AGC Subsidiaries, both guaranteed the obligations of the other and of Assured Guaranty Ltd. under such facility.

The \$300.0 million credit facility's financial covenants require that Assured Guaranty Ltd. (a) maintain a minimum net worth of \$1.2 billion, (b) maintain an interest coverage ratio of at least 2.5:1, and (c) maintain a maximum debt-to-capital ratio of 30%. In addition, the \$300.0 million credit facility requires that AGC: (x) maintain qualified statutory capital of at least 80% of its statutory capital as of the fiscal quarter prior to the closing date of the facility and (y) maintain a ratio of aggregate net par outstanding to qualified statutory capital of not more than 150:1. Furthermore, the \$300.0 million credit facility contains restrictions on Assured Guaranty Ltd. and its subsidiaries, including, among other things, in respect of their ability to incur debt, permit liens, become liable in respect of guaranties, make loans or investments, pay dividends or make distributions, dissolve or become party to a merger, consolidation or acquisition, dispose of assets or enter into affiliate transactions. Most of these restrictions are subject to certain minimum thresholds and exceptions. A default by one borrower will give rise to a right of the lenders to terminate the facility and accelerate all amounts then outstanding. As of March 31, 2006 and December 31, 2005, Assured Guaranty was in compliance with all of those financial covenants.

As of March 31, 2006 and December 31, 2005, no amounts were outstanding under this facility nor have there been any borrowings under this facility.

Non-Recourse Credit Facility

AGC is also party to a non-recourse credit facility with a syndicate of banks which provides up to \$175.0 million specifically designed to provide rating agency-qualified capital to further support AGC's claims paying resources. The facility expires in December 2010. As of March 31, 2006 and December 31, 2005, no amounts were outstanding under this facility nor have there been any borrowings under the life of this facility.

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

Committed Capital Securities

On April 8, 2005, AGC entered into four separate agreements with four different unaffiliated custodial trusts pursuant to which AGC may, at its option, cause each of the custodial trusts to purchase up to \$50.0 million of perpetual preferred stock of AGC. The custodial trusts were created as a vehicle for providing capital support to AGC by allowing AGC to obtain immediate access to new capital at its sole discretion at any time through the exercise of the put option. If the put options were exercised, AGC would receive \$200.0 million in return for the issuance of its own perpetual preferred stock, the proceeds of which may be used for any purpose including the payment of claims. The put options were not exercised as of March 31, 2006. Initially, all of the CCS Securities were issued to a special purpose pass-through trust (the "Pass-Through Trust"). The Pass-Through Trust is a newly created statutory trust organized under the Delaware Statutory Trust Act formed for the purposes of (i) issuing \$200,000,000 of Pass-Through Trust Securities to qualified institutional buyers within the meaning of Rule 144A under the Securities Act of 1933, as amended, (ii) investing the proceeds from the sale of the Pass-Through Trust Securities in, and holding, the CCS Securities issued by the Custodial Trusts and (iii) entering into related agreements. Neither the Pass-Through Trust nor the Custodial Trusts are consolidated in Assured Guaranty Ltd.'s financial statements.

During First Quarter 2006, AGC incurred \$0.6 million of put option premiums which are an on-going expense. These expenses are presented in the Company's unaudited interim consolidated statements of operations and comprehensive income under other expense.

7. Share-Based Compensation

Effective January 1, 2006, the Company adopted FAS No. 123 (revised), "Share-Based Payment" (FAS 123R), which replaces FAS No. 123, "Accounting for Stock-Based Compensation" (FAS 123) and supersedes Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" (APB 25). FAS 123R requires all share-based compensation transactions with employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period based on their relative fair values.

Prior to the adoption of FAS 123R, the Company followed the guidance of APB 25 and did not record share-based compensation expense related to employee stock options in the statement of operations, since for all grants the exercise price was equal to the market value of the common stock on the grant date.

The Company elected to use the modified prospective transition method for implementing FAS 123R. Under this transition method, compensation expense includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R. Because we elected to use the modified prospective transition method, results for prior periods have not been restated and new awards are valued and accounted for prospectively upon adoption.

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Beginning January 1, 2006, upon adoption of FAS 123R, the Company recorded share-based compensation for the cost of stock options, restricted stock and the Stock Purchase Plan. Share-based compensation expense in First Quarter 2006 was \$3.2 million (\$2.7 million after tax). The effect on basic and diluted earnings per share for First Quarter 2006 was \$0.04. Included in First Quarter 2006 expense was \$0.6 million for stock award grants to retirement-eligible employees. The amount of share-based compensation capitalized in First Quarter 2006 as deferred acquisition costs (DAC) was \$0.6 million. Share-based compensation expense in First Quarter 2005 was \$1.4 million (\$1.2 million after tax), respectively. FAS 123R requires these awards to be expensed over the period through the date the employee first becomes eligible to retire and is no longer required to provide service to earn part or all of the award, regardless of the employees intent of retirement. The following table presents pre-DAC and pre-tax, share-based compensation cost by share-based type:

| (in thousands of U.S. dollars) | Three Months Ended March 31, | |
|--|------------------------------|-----------------|
| | 2006 | 2005 |
| Share-Based Employee Cost | | |
| <i>Restricted Stock</i> | | |
| Recurring amortization | \$ 1,807 | \$ 1,179 |
| Accelerated amortization for retirement eligible employees | 443 | |
| Subtotal | 2,250 | 1,179 |
| <i>Stock Options</i> | | |
| Recurring amortization | 1,044 | |
| Accelerated amortization for retirement eligible employees | 205 | |
| Subtotal | 1,249 | |
| <i>ESPP</i> | 32 | |
| Total Share-Based Employee Cost | 3,531 | 1,179 |
| Share-Based Directors Cost | | |
| <i>Restricted Stock</i> | 67 | 30 |
| <i>Restricted Stock Units</i> | 184 | 158 |
| Total Share-Based Directors Cost | 251 | 188 |
| Total Share-Based Cost | \$ 3,782 | \$ 1,367 |

For First Quarter 2005, had the compensation expense been determined in accordance with the fair value method recommended in FAS 123, the Company's net income and net income per share would have been adjusted to the pro forma amounts indicated below:

| (in thousands of U.S. dollars, except per share amounts) | Three Months Ended March 31, 2005 | |
|--|-----------------------------------|--------|
| Net income as reported | \$ | 44,348 |
| Add: Stock-based compensation expense included in reported net income, net of income tax | 1,208 | |
| Deduct: Compensation expense, in accordance with FAS 123, net of income tax | 2,307 | |
| Pro forma net income | \$ | 43,249 |
| Basic Earnings Per Share: | | |
| As reported | \$ | 0.60 |
| Pro forma | \$ | 0.58 |
| Diluted Earnings Per Share: | | |
| As reported | \$ | 0.59 |
| Pro forma | \$ | 0.58 |

Assured Guaranty Ltd. Share-Based Compensation Plans

As of April 27, 2004, the Company adopted the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (the Incentive Plan). The Incentive Plan authorizes the grant of incentive stock options, non-qualified stock

options, stock appreciation rights, and full value awards that are based on the Company's common shares. The number of common shares that may be delivered under the Incentive Plan may not exceed 7,500,000. As of March 31, 2006, 2,583,545 common shares were available for grant under the Incentive Plan. In January 2005, the Company implemented the Stock Purchase Plan ("Stock Purchase Plan") in accordance with Internal Revenue Code Section 423. The Company reserved for issuance and purchases under the Stock Purchase Plan 100,000 shares of its common stock. As of March 31, 2006, 80,512 common shares were available for grant under the Stock Purchase Plan. The Incentive Plan and the Stock Purchase Plan are described more fully in the Company's 2005 Annual Report on Form 10-K.

Stock Options

Nonqualified or incentive stock options may be granted to employees and directors of the Company. To date, the Company has only issued nonqualified stock options. All stock options granted to employees vest in equal annual installments over a three-year period and expire 10 years from the date of grant. None of our options have a performance or market condition. The following table summarizes stock option activity for the three months ended March 31, 2006:

| Options | Options for Common Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value(1) (in thousands) |
|--|---------------------------|---------------------------------|---|---|
| Outstanding at December 31, 2005 | 2,457,302 | \$ 18.05 | | |
| Granted | 777,967 | \$ 25.50 | | |
| Exercised | (10,669) | \$ 17.99 | | |
| Forfeited | (6,432) | \$ 18.01 | | |
| Outstanding at March 31, 2006 | 3,218,168 | \$ 19.84 | 8.5 | \$ 16,562 |
| Vested and exercisable at March 31, 2006 | 804,072 | \$ 17.93 | 7.8 | \$ 5,686 |

(1) The aggregate intrinsic value was calculated based on the positive difference between the closing price of the Company's common stock on March 31, 2006 (i.e. \$25.00) and the weighted average exercise price of the underlying options.

The Company recorded \$1.2 million (\$1.0 million after tax) in share-based compensation related to stock options during First Quarter 2006. As of March 31, 2006 the total unrecognized compensation expense related to outstanding non-vested stock options was \$6.2 million, which will be adjusted in the future for actual forfeitures. The Company expects to recognize that expense over the weighted-average remaining service period of 1.7 years.

The weighted-average grant-date fair value of options granted were \$6.71 and \$4.51 for First Quarter 2006 and First Quarter 2005, respectively. The fair value of options issued is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2006 and 2005:

| | Three Months Ended March 31, | | | |
|-------------------------|------------------------------|---|---------|---|
| | 2006 | | 2005 | |
| Dividend yield | 0.5 | % | 0.7 | % |
| Expected volatility | 20.44 | % | 20.80 | % |
| Risk free interest rate | 4.6 | % | 4.1 | % |
| Expected life | 5 years | | 5 years | |
| Forfeiture rate | 6.0 | % | 6.0 | % |

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These assumptions were based on the following:

- The expected dividend yield is based on the current expected annual dividend and company share price on the grant date,
- Expected volatility is estimated at the date of grant based on the historical share price volatility, calculated on a daily basis,
- The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term to the granted stock options,
- The expected life is based on the average expected term of our guideline companies, which are defined as similar entities, since the Company has insufficient expected life data.
- The forfeiture rate is based on the rate used by our guideline companies, since the Company has insufficient forfeiture data. Estimated forfeitures will be reassessed at each balance sheet date and may change based on new facts and circumstances.

For options granted before January 1, 2006, the Company amortizes the fair value on an accelerated basis. For options granted on or after January 1, 2006, the Company amortizes the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods, with the exception of retirement-eligible employees. For retirement-eligible employees options are amortized over the period through the date the employee first becomes eligible to retire and is no longer required to provide service to earn part or all of the award. The Company may elect to use different assumptions under the Black-Scholes option valuation model in the future, which could materially affect the Company's net income or earnings per share.

The total intrinsic value of options exercised during for First Quarter 2006 was \$0.1 million. During First Quarter 2006, an immaterial amount of cash was received from the exercise of stock options and a corresponding immaterial related tax benefit was recorded. No options were exercised during First Quarter 2005. The Company has a policy of issuing new shares to satisfy stock option exercises.

Restricted Stock Awards

The Company has granted restricted stock awards to employees and directors of the Company. Restricted stock awards generally vest in equal annual installments over a four-year period. Restricted stock awards are amortized over the requisite service periods of the awards, which are generally the vesting periods, with the exception of retirement-eligible employees, discussed above. Prior to the adoption of FAS 123R, the Company presented restricted stock issuances on the balance sheet in common stock and additional paid-in capital with an offset in unearned stock grant compensation as a separate component of shareholders' equity. In accordance with the provisions of FAS 123R, on January 1, 2006, the Company reclassified the balance in unearned stock grant compensation to common stock and additional paid-in capital in shareholders' equity. The following table summarizes restricted stock award activity for the three months ended March 31, 2006:

| | Number of Shares | Weighted Average Grant-Date Fair Value |
|--------------------------------|---------------------|---|
| Nonvested Shares | | |
| Nonvested at December 31, 2005 | 1,021,124 | \$ 18.12 |
| Granted | 444,533 | \$ 25.50 |
| Vested | (82,168) | \$ 18.03 |
| Forfeited | (3,549) | \$ 18.01 |
| Nonvested at March 31, 2006 | 1,379,940 | \$ 20.50 |

The Company recorded \$2.3 million (\$1.8 million after tax) in share-based compensation, related to restricted stock awards, during First Quarter 2006. Restricted stock awards are expensed on a straight-line basis over the vesting period. As of March 31, 2006 the total unrecognized compensation cost related to outstanding nonvested restricted stock awards was \$23.4 million, which the Company expects to recognize over the

weighted-average remaining service period of 2.6 years.

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Restricted Stock Units

The Company has granted restricted stock units to directors of the Company. Restricted stock units vest over a one-year period. The following table summarizes restricted stock unit activity (excluding dividend equivalents) for the three months ended March 31, 2006:

| Nonvested Stock Units | Number of Stock Units | Weighted Average Grant-Date Fair Value | |
|--------------------------------|--------------------------|---|-------|
| Nonvested at December 31, 2005 | 36,301 | \$ | 20.25 |
| Granted | | \$ | |
| Vested | | \$ | |
| Forfeited | | \$ | |
| Nonvested at March 31, 2006 | 36,301 | \$ | 20.25 |

The Company recorded \$0.2 million (\$0.2 million after tax) in share-based compensation during First Quarter 2006. The compensation for restricted stock units is expensed on a straight-line basis over the vesting period. As of March 31, 2006, the total unrecognized compensation cost related to outstanding nonvested restricted stock units was \$0.1 million, which the Company expects to recognize over the weighted-average remaining service period of 0.1 years.

Employee Stock Purchase Plan

Participation in the Stock Purchase Plan is available to all eligible employees. Maximum annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to 10 percent of the participant's compensation or, if less, shares having a value of \$25,000. Participants may purchase shares at a purchase price equal to 85 percent of the lesser of the fair market value of the stock on the first day or the last day of the subscription period. The Company recorded \$32,000 (\$23,000 after tax) in share-based compensation during First Quarter 2006.

8. Earnings Per Share

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

| | Three Months Ended March 31, | |
|--------------------------------|--|-------------|
| | 2006 | 2005 |
| | (in thousands of U.S. dollars except per share amounts) | |
| Net income | \$ 34,882 | \$ 44,348 |
| Basic shares | 73,768 | 74,458 |
| Effect of dilutive securities: | | |
| Stock awards | 1,085 | 445 |
| Diluted shares | 74,853 | 74,903 |
| Basic EPS | \$ 0.47 | \$ 0.60 |
| Diluted EPS | \$ 0.47 | \$ 0.59 |

9. Segment Reporting

The Company has four principal business segments: (1) financial guaranty direct, which includes transactions whereby the Company provides an unconditional and irrevocable guaranty that indemnifies the holder of a financial obligation against non-payment of principal and interest when due, and could take the form of a credit derivative; (2) financial guaranty reinsurance, which includes agreements whereby the Company is a reinsurer and agrees to indemnify a primary insurance company against part or all of the loss which the latter may sustain under a policy it has issued; (3) mortgage guaranty, which includes mortgage guaranty insurance and reinsurance whereby the Company provides protection against the default of borrowers on mortgage loans; and (4) other, which includes several lines of business in which the Company is no longer active, including, but not limited to equity layer credit protection, trade credit reinsurance and title reinsurance.

The Company does not segregate assets and liabilities at a segment level since management reviews and controls these assets and liabilities on a consolidated basis. The Company allocates operating expenses to each segment based on a comprehensive cost study. During 2006, the Company implemented a new operating expense methodology to more closely apply expenses to the individual operating segments. This new methodology was based on a comprehensive study and is based on departmental time estimates and headcount. 2005 amounts have been restated to show this new methodology on a comparative basis. Management uses underwriting gains as the primary measure of each segment's financial performance.

The following table summarizes the components of underwriting gain for each reporting segment:

| | Three Months Ended March 31, 2006 | | | | | |
|-----------------------------------|--|---|------------------------------|--------------|--------------|--|
| | Financial Guaranty Direct | Financial Guaranty Reinsurance | Mortgage Guaranty | Other | Total | |
| | (in millions of U.S. dollars) | | | | | |
| Gross written premiums | \$ 30.2 | \$ 18.8 | \$ 2.6 | \$ 3.8 | \$ 55.4 | |
| Net written premiums | 29.7 | 18.5 | 2.6 | | 50.8 | |
| Net earned premiums | 20.7 | 23.3 | 4.2 | | 48.1 | |
| Loss and loss adjustment expenses | (1.8) | 2.8 | (0.2) | (1.2) | (0.4) | |
| Profit commission expense | | 0.4 | 0.9 | | 1.3 | |
| Acquisition costs | 1.8 | 8.7 | 0.3 | | 10.8 | |
| Other operating expenses | 13.4 | 3.4 | 0.3 | | 17.2 | |
| Underwriting gain | \$ 7.2 | \$ 8.0 | \$ 2.8 | \$ 1.2 | \$ 19.2 | |

| | Three Months Ended March 31, 2005 | | | | | | | | | | | | | |
|-----------------------------------|-----------------------------------|-------|--------------------------------------|----|----------------------|---|----|-------|--|----|-------|---|----|-------|
| | Financial Guaranty Direct | | Financial Guaranty Reinsurance | | Mortgage Guaranty | | | Other | | | Total | | | |
| | (in millions of U.S. dollars) | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| Gross written premiums | \$ | 23.8 | | \$ | 34.0 | | \$ | 19.4 | | \$ | 0.9 | | \$ | 78.1 |
| Net written premiums | | 23.1 | | | 34.0 | | | 19.4 | | | | | | 76.5 |
| Net earned premiums | | 20.4 | | | 23.0 | | | 4.6 | | | | | | 48.1 |
| Loss and loss adjustment expenses | | (1.5) |) | | (7.1) |) | | 0.2 | | | (1.1) |) | | (9.4) |
| Profit commission expense | | | | | | | | 1.0 | | | | | | 1.0 |
| Acquisition costs | | 1.5 | | | 8.1 | | | 0.5 | | | | | | 10.2 |
| Other operating expenses | | 11.4 | | | 2.8 | | | 0.3 | | | | | | 14.5 |
| Underwriting gain | \$ | 9.0 | | \$ | 19.2 | | \$ | 2.6 | | \$ | 1.1 | | \$ | 31.9 |

The following is a reconciliation of total underwriting gain to income before provision for income taxes for the periods ended:

| | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2006 | 2005 |
| | (in millions of U.S. dollars) | |
| Total underwriting gain | \$ 19.2 | \$ 31.9 |
| Net investment income | 26.2 | 23.1 |
| Net realized investment (losses) gains | (1.0) | 1.8 |
| Unrealized gains on derivative financial instruments | | 3.1 |
| Other income | | 0.3 |
| Interest expense | (3.4) | (3.3) |
| Other expense | (0.6) | |
| Income before provision for income taxes | \$ 40.5 | \$ 56.8 |

The following table provides the lines of businesses from which each of the Company's segments derive their net earned premiums:

| | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2006 | 2005 |
| | (in millions of U.S. dollars) | |
| Financial guaranty direct: | | |
| Public finance | \$ 1.1 | \$ 0.1 |
| Structured finance | 19.6 | 20.3 |
| Total | 20.7 | 20.4 |
| Financial guaranty reinsurance: | | |
| Public finance | 15.6 | 11.0 |
| Structured finance | 7.7 | 12.0 |
| Total | 23.3 | 23.0 |
| Mortgage guaranty: | | |

| | | | | | |
|---------------------------|--|-----|------|-----|------|
| Mortgage guaranty | | 4.2 | | 4.6 | |
| Total net earned premiums | | \$ | 48.1 | \$ | 48.1 |

The other segment had an underwriting gain of \$1.2 million and \$1.1 million for First Quarter 2006 and First Quarter 2005, respectively, as the equity layer credit protection business recorded loss recoveries in both periods.

10. Subsidiary Information

The following tables present the unaudited condensed consolidated financial information for Assured Guaranty Ltd., Assured Guaranty US Holdings Inc., of which AGC is a subsidiary and other subsidiaries of Assured Guaranty Ltd. as of March 31, 2006 and December 31, 2005 and for the three months ended March 31, 2006 and 2005.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF MARCH 31, 2006

(in thousands of U. S. dollars)

| | Assured Guaranty Ltd. (Parent Company) | Assured Guaranty US Holdings Inc. | AG Re and Other Subsidiaries | Consolidating Adjustments | Assured Guaranty Ltd. (Consolidated) |
|--|---|---|------------------------------------|------------------------------|--|
| Assets | | | | | |
| Total investments and cash | \$ 76 | \$ 1,132,042 | \$ 1,120,724 | \$ | \$ 2,252,842 |
| Investment in subsidiaries | 1,687,289 | | | (1,687,289) | |
| Deferred acquisition costs | | 75,660 | 120,237 | | 195,897 |
| Reinsurance recoverable | | 11,504 | 4,147 | (3,493) | 12,158 |
| Goodwill | | 85,417 | | | 85,417 |
| Premiums receivable | | 18,306 | 14,491 | (5,813) | 26,984 |
| Other | 744 | 95,705 | 49,764 | (41,518) | 104,695 |
| Total assets | \$ 1,688,109 | \$ 1,418,634 | \$ 1,309,363 | \$ (1,738,113) | \$ 2,677,993 |
| Liabilities and shareholders' equity | | | | | |
| Liabilities | | | | | |
| Unearned premium reserves | \$ | \$ 196,391 | \$ 368,650 | \$ (24,297) | \$ 540,744 |
| Reserves for losses and loss adjustment expenses | | 64,822 | 55,842 | (3,493) | 117,171 |
| Profit commissions payable | | 3,790 | 24,258 | | 28,048 |
| Deferred income taxes | | 33,020 | (7,630) | | 25,390 |
| Long-term debt | | 197,352 | | | 197,352 |
| Other | 14,692 | 48,653 | 55,560 | (23,034) | 95,871 |
| Total liabilities | 14,692 | 544,028 | 496,680 | (50,824) | 1,004,576 |
| Total shareholders' equity | 1,673,417 | 874,606 | 812,683 | (1,687,289) | 1,673,417 |
| Total liabilities and shareholders' equity | \$ 1,688,109 | \$ 1,418,634 | \$ 1,309,363 | \$ (1,738,113) | \$ 2,677,993 |

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2005

(in thousands of U. S. dollars)

| | Assured Guaranty Ltd. (Parent Company) | Assured Guaranty US Holdings Inc. | AG Re and Other Subsidiaries | Consolidating Adjustments | Assured Guaranty Ltd. (Consolidated) |
|--|---|---|------------------------------------|------------------------------|--|
| Assets | | | | | |
| Total investments and cash | \$ 163 | \$ 1,116,387 | \$ 1,139,463 | \$ | \$ 2,256,013 |
| Investment in subsidiaries | 1,665,392 | | | (1,665,392) | |
| Deferred acquisition costs | | 73,803 | 119,639 | | 193,442 |
| Reinsurance recoverable | | 11,410 | 4,108 | (3,168) | 12,350 |
| Goodwill | | 85,417 | | | 85,417 |
| Premiums receivable | | 17,168 | 17,278 | (1,435) | 33,011 |
| Other | 1,172 | 107,211 | 27,121 | (26,614) | 108,890 |
| Total assets | \$ 1,666,727 | \$ 1,411,396 | \$ 1,307,609 | \$ (1,696,609) | \$ 2,689,123 |
| | | | | | |
| Liabilities and shareholders' equity | | | | | |
| | | | | | |
| Liabilities | | | | | |
| Unearned premium reserves | \$ | \$ 196,435 | \$ 362,273 | \$ (21,559) | \$ 537,149 |
| Reserves for losses and loss adjustment expenses | | 63,491 | 60,896 | (3,168) | 121,219 |
| Profit commissions payable | | 4,237 | 48,756 | | 52,993 |
| Deferred income taxes | | 35,997 | (9,368) | | 26,629 |
| Long-term debt | | 197,344 | | | 197,344 |
| Other | 5,214 | 55,384 | 38,168 | (6,490) | 92,276 |
| Total liabilities | 5,214 | 552,888 | 500,725 | (31,217) | 1,027,610 |
| Total shareholders' equity | 1,661,513 | 858,508 | 806,884 | (1,665,392) | 1,661,513 |
| Total liabilities and shareholders' equity | \$ 1,666,727 | \$ 1,411,396 | \$ 1,307,609 | \$ (1,696,609) | \$ 2,689,123 |

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

(in thousands of U. S. dollars)

| | Assured Guaranty Ltd. (Parent Company) | Assured Guaranty US Holdings Inc. | AG Re and Other Subsidiaries | Consolidating Adjustments * | Assured Guaranty Ltd. (Consolidated) |
|--|---|---|------------------------------------|--------------------------------|--|
| Revenues | | | | | |
| Net premiums written | \$ | \$ 25,117 | \$ 25,667 | \$ | \$ 50,784 |
| Net premiums earned | | 26,729 | 21,326 | | 48,055 |
| Net investment income | | 12,829 | 13,421 | (12) | 26,238 |
| Net realized investment (losses) gains | | (1,146) | 140 | | (1,006) |
| Unrealized gains (losses) on derivative financial instruments | | 720 | (691) | | 29 |
| Equity in earnings of subsidiaries | 38,342 | | | (38,342) | |
| Other revenues | | | | | |
| Total revenues | 38,342 | 39,132 | 34,196 | (38,354) | 73,316 |
| Expenses | | | | | |
| Loss and loss adjustment expenses | | 2,045 | (2,427) | | (382) |
| Acquisition costs and other operating expenses | 3,450 | 15,294 | 10,499 | | 29,243 |
| Other | 10 | 3,978 | 1 | | 3,989 |
| Total expenses | 3,460 | 21,317 | 8,073 | | 32,850 |
| Income before provision for income taxes | 34,882 | 17,815 | 26,123 | (38,354) | 40,466 |
| Total provision for income taxes | | 3,505 | 2,059 | 20 | 5,584 |
| Net income | \$ 34,882 | \$ 14,310 | \$ 24,064 | \$ (38,374) | \$ 34,882 |

* The net income in the consolidating adjustment column will not equal parent company equity in earnings of subsidiaries, due to the residual effects of the 2005 reinsurance agreement with FSA.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2005

(in thousands of U. S. dollars)

| | Assured Guaranty Ltd. (Parent Company) | Assured Guaranty US Holdings Inc. | AG Re and Other Subsidiaries | Consolidating Adjustments | Assured Guaranty Ltd. (Consolidated) |
|--|---|---|------------------------------------|------------------------------|--|
| Revenues | | | | | |
| Net premiums written | \$ | \$ 25,929 | \$ 50,540 | \$ | \$ 76,469 |
| Net premiums earned | | 31,087 | 17,003 | | 48,090 |
| Net investment income | | 13,280 | 9,852 | | 23,132 |
| Net realized investment gains | | 162 | 1,629 | | 1,791 |
| Unrealized gains (losses) on derivative financial instruments | | 4,923 | (1,851) | | 3,072 |
| Equity in earnings of subsidiaries | 47,944 | | | (47,944) | |
| Other revenues | | | 283 | | 283 |
| Total revenues | 47,944 | 49,452 | 26,916 | (47,944) | 76,368 |
| Expenses | | | | | |
| Loss and loss adjustment expenses | | (1,828) | (7,568) | | (9,396) |
| Acquisition costs and other operating expenses | 3,596 | 16,631 | 5,484 | | 25,711 |
| Other | | 3,326 | (30) | | 3,296 |
| Total expenses | 3,596 | 18,129 | (2,114) | | 19,611 |
| Income before provision for income taxes | 44,348 | 31,323 | 29,030 | (47,944) | 56,757 |
| Total provision for income taxes | | 8,205 | 4,204 | | 12,409 |
| Net income | \$ 44,348 | \$ 23,118 | \$ 24,826 | \$ (47,944) | \$ 44,348 |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

(in thousands of U. S. dollars)

| | Assured Guaranty Ltd. (Parent Company) | Assured Guaranty US Holdings Inc. | AG Re and Other Subsidiaries | Consolidating Adjustments | Assured Guaranty Ltd. (Consolidated) |
|--|---|---|---------------------------------------|------------------------------|--|
| Net cash flows provided by (used in) operating activities | \$ 2,981 | \$ 26,948 | \$ (9,519) | \$ | \$ 20,410 |
| Cash flows from investing activities | | | | | |
| Fixed maturity securities: | | | | | |
| Purchases | | (144,847) | (115,675) | | (260,522) |
| Sales | | 144,257 | 115,695 | | 259,952 |
| Maturities | | | | | |
| Sales (purchases) of short-term investments, net | 87 | (27,398) | 8,073 | | (19,238) |
| Net cash flows (used in) provided by investing activities | 87 | (27,988) | 8,093 | | (19,808) |
| Cash flows from financing activities | | | | | |
| Dividends paid | (2,632) | | | | (2,632) |
| Share activity under option and incentive plans | (436) | | | | (436) |
| Net cash flows used in financing activities | (3,068) | | | | (3,068) |
| Effect of exchange rate changes | | 17 | 5 | | 22 |
| Decrease in cash and cash equivalents | | (1,023) | (1,421) | | (2,444) |
| Cash and cash equivalents at beginning of period | | 2,923 | 3,267 | | 6,190 |
| Cash and cash equivalents at end of period | \$ | \$ 1,900 | \$ 1,846 | \$ | \$ 3,746 |

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2005

(in thousands of U. S. dollars)

| | Assured Guaranty Ltd. (Parent Company) | Assured Guaranty US Holdings Inc. | AG Re and Other Subsidiaries | Consolidating Adjustments | Assured Guaranty Ltd. (Consolidated) |
|--|---|---|---------------------------------------|------------------------------|--|
| Net cash flows provided by (used in) operating activities | \$ 17,147 | \$ (10,949) | \$ 50,983 | \$ | \$ 57,181 |
| Cash flows from investing activities | | | | | |
| Fixed maturity securities: | | | | | |
| Purchases | | (59,545) | (257,650) | | (317,195) |
| Sales | | 41,823 | 127,692 | | 169,515 |
| Maturities | | | | | |
| Sales (purchases) of short-term investments, net | (133) | 32,531 | 79,911 | | 112,309 |
| Net cash flows (used in) provided by investing activities | (133) | 14,809 | (50,047) | | (35,371) |
| Cash flows from financing activities | | | | | |
| Repurchases of common stock | (14,740) | | | | (14,740) |
| Dividends paid | (2,274) | | | | (2,274) |
| Net cash flows used in financing activities | (17,014) | | | | (17,014) |
| Effect of exchange rate changes | | (26) | (25) | | (51) |
| Increase in cash and cash equivalents | | 3,834 | 911 | | 4,745 |
| Cash and cash equivalents at beginning of period | | 12,096 | 4,882 | | 16,978 |
| Cash and cash equivalents at end of period | \$ | \$ 15,930 | \$ 5,793 | \$ | \$ 21,723 |

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

Forward-Looking Statements

This Form 10-Q contains information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give Assured Guaranty Ltd. (hereafter "Assured Guaranty," "we," "our" or the "Company") expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts and relate to future operating or financial performance.

Any or all of Assured Guaranty's forward-looking statements herein may turn out to be wrong and are based on current expectations and the current economic environment. Assured Guaranty's actual results may vary materially. Among factors that could cause actual results to differ materially are: (1) downgrades of the financial strength ratings assigned by the major rating agencies to any of our insurance subsidiaries at any time, which has occurred in the past; (2) our inability to execute our business strategy; (3) reduction in the amount of reinsurance ceded by one or more of our principal ceding companies; (4) contract cancellations; (5) developments in the world's financial and capital markets that adversely affect our loss experience, the demand for our products or our investment returns; (6) more severe or frequent losses associated with our insurance products; (7) changes in regulation or tax laws applicable to us, our subsidiaries or customers; (8) governmental action; (9) natural catastrophes; (10) dependence on customers; (11) decreased demand for our insurance or reinsurance products or increased competition in our markets; (12) loss of key personnel; (13) technological developments; (14) the effects of mergers, acquisitions and divestitures; (15) changes in accounting policies or practices; (16) changes in general economic conditions, including interest rates and other factors; (17) other risks and uncertainties that have not been identified at this time; and (18) management's response to these factors. Assured Guaranty is not obligated to publicly correct or update any forward-looking statement if we later become aware that it is not likely to be achieved, except as required by law. You are advised, however, to consult any further disclosures we make on related subjects in our periodic reports filed with the Securities and Exchange Commission.

Executive Summary

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

Our financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. The other segment consists of a number of businesses that we exited in connection with the IPO.

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

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

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

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

Critical Accounting Estimates

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

Reserves for Losses and Loss Adjustment Expenses

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

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

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

and time until maturity. The severity is defined as the complement of historical recovery/salvage rates gathered by the rating agencies of defaulting issues and is based on the industry sector.

Portfolio reserves are recorded gross of reinsurance. To date our reinsurance programs have been made up of excess of loss contracts. We have not ceded any amounts under these contracts, as our recorded portfolio reserves have not exceeded our contractual retentions.

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

The chart below demonstrates the portfolio reserve's sensitivity to frequency and severity assumptions. The change in these estimates represent management's estimate of reasonably possible material changes and are based upon our analysis of historical experience. Portfolio reserves were recalculated with changes made to the default and severity assumptions. In all scenarios, the starting point used to test the portfolio reserve's sensitivity to the changes in the frequency and severity assumptions was the weighted average frequency and severity by rating and asset class of our insured portfolio. Overall the weighted average default frequency was 0.79% and the weighted average severity was 19.4% at March 31, 2006. For example, in the first scenario where the frequency was increased by 5.0%, each transaction's contribution to the portfolio reserve was recalculated by adding 0.04% (i.e. 5.0% multiplied by 0.79%) to the individual transaction's default frequency.

| (in thousands of U.S. dollars) | Portfolio Reserve | Reserve Increase | Percentage Change | |
|--|-------------------|------------------|-------------------|---|
| Portfolio reserve as of March 31, 2006 | \$ 62,504 | \$ | | |
| 5% Frequency Increase | 66,124 | 3,620 | 5.79 | % |
| 10% Frequency Increase | 69,743 | 7,239 | 11.58 | % |
| 5% Severity Increase | 65,516 | 3,012 | 4.82 | % |
| 10% Severity Increase | 68,528 | 6,024 | 9.64 | % |
| 5% Frequency and Severity Increase | 69,327 | 6,823 | 10.91 | % |

In addition to analyzing the sensitivity of our portfolio reserves to possible changes in frequency and severity, we have also performed a sensitivity analysis on our financial guaranty and mortgage guaranty case reserves. Case reserves may change from our original estimate due to changes in severity factors. An actuarial analysis of the historical development of our case reserves shows that it is reasonably possible that our case reserves could develop by as much as ten percent. This analysis was performed by separately evaluating the historical development by comparing the initial case reserve established to the subsequent development in that case reserve, excluding the effects of discounting, for each sector in which we currently have significant case reserves, and estimating the possible future development. Based on this analysis, it is reasonably possible that our current financial guaranty and mortgage guaranty case reserves of \$35.9 million could reasonably increase by approximately \$3.0 million to \$4.0 million in the future. This would cause an increase in incurred losses on our statement of operations and comprehensive income.

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

We also record IBNR reserves for our mortgage guaranty and other segments. IBNR is an estimate of losses for which the insured event has occurred but the claim has not yet been reported to us. In establishing IBNR, we use traditional actuarial methods to estimate the reporting lag of such claims based on historical experience, claim reviews and information reported by ceding companies.

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We record IBNR for mortgage guaranty quota-share reinsurance contracts, all of which are in run-off, within our mortgage guaranty segment. We also record IBNR for title reinsurance, auto residual value reinsurance and trade credit reinsurance within our other segment. The other segment represents lines of business we have exited or sold prior to the IPO.

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

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

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

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

| | March 31, 2006 | December 31, 2005 |
|--------------------------------|-------------------------------|----------------------|
| | (in millions of U.S. dollars) | |
| <i>By segment:</i> | | |
| Financial guaranty direct | \$ 8.0 | \$ 13.1 |
| Financial guaranty reinsurance | 87.8 | 86.3 |
| Mortgage guaranty | 6.7 | 7.0 |
| Other | 14.7 | 14.8 |
| Total | \$ 117.2 | \$ 121.2 |

| | March 31, 2006 | December 31, 2005 |
|----------------------------|-------------------------------|----------------------|
| | (in millions of U.S. dollars) | |
| <i>By type of reserve:</i> | | |
| Case | \$ 43.1 | \$ 45.9 |
| IBNR | 11.6 | 11.6 |
| Portfolio | 62.5 | 63.7 |
| Total | \$ 117.2 | \$ 121.2 |

| | As of March 31, 2006 | | | | | | | | | | | | | | |
|---------------------------------|---------------------------------|------|---|--------------------------------------|------|--|----------------------|-----|--|-------|------|--|-------|-------|--|
| | Financial Guaranty Direct | | | Financial Guaranty Reinsurance | | | Mortgage Guaranty | | | Other | | | Total | | |
| | (in millions of U.S. dollars) | | | | | | | | | | | | | | |
| By segment and type of reserve: | | | | | | | | | | | | | | | |
| Case | \$ | (0.7 |) | \$ | 36.4 | | \$ | 0.2 | | \$ | 7.2 | | \$ | 43.1 | |
| IBNR | | | | | | | | 4.1 | | | 7.5 | | | 11.6 | |
| Portfolio | | 8.7 | | | 51.4 | | | 2.4 | | | | | | 62.5 | |
| Total | \$ | 8.0 | | \$ | 87.8 | | \$ | 6.7 | | \$ | 14.7 | | \$ | 117.2 | |

| | As of December 31, 2005 | | | | | | | | | | | | | | |
|---------------------------------|---------------------------------|------|--|--------------------------------------|------|--|----------------------|-----|--|-------|------|--|-------|-------|--|
| | Financial Guaranty Direct | | | Financial Guaranty Reinsurance | | | Mortgage Guaranty | | | Other | | | Total | | |
| | (in millions of U.S. dollars) | | | | | | | | | | | | | | |
| By segment and type of reserve: | | | | | | | | | | | | | | | |
| Case | \$ | 4.5 | | \$ | 33.8 | | \$ | 0.3 | | \$ | 7.3 | | \$ | 45.9 | |
| IBNR | | | | | | | | 4.1 | | | 7.5 | | | 11.6 | |
| Portfolio | | 8.6 | | | 52.5 | | | 2.6 | | | | | | 63.7 | |
| Total | \$ | 13.1 | | \$ | 86.3 | | \$ | 7.0 | | \$ | 14.8 | | \$ | 121.2 | |

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

| | As of March 31, 2006 | | | As of December 31, 2005 | | |
|------------------------|-------------------------------|-----------------------------|---|-------------------------|-----------------------------|---|
| Ratings(1) | Net par outstanding | % of Net par outstanding | | Net par outstanding | % of Net par outstanding | |
| | (in billions of U.S. dollars) | | | | | |
| AAA | \$ 37.6 | 35.2 | % | \$ 34.5 | 33.7 | % |
| AA | 20.8 | 19.5 | % | 20.0 | 19.5 | % |
| A | 30.8 | 28.9 | % | 30.3 | 29.5 | % |
| BBB | 16.3 | 15.3 | % | 16.4 | 16.0 | % |
| Below investment grade | 1.3 | 1.2 | % | 1.2 | 1.3 | % |
| Total exposures | \$ 106.9 | 100.0 | % | \$ 102.5 | 100.0 | % |

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

Our surveillance department is responsible for monitoring our portfolio of credits and maintains a list of closely monitored credits. The closely monitored credits are divided into four categories: Category 1 (low priority; fundamentally sound, greater than normal risk); Category 2 (medium priority; weakening credit profile, may result in loss); Category 3 (high priority; claim/default probable, case reserve established); Category 4 (claim paid, case reserve established for future payments). The closely monitored credits include all below investment grade (BIG) exposures where there is a material amount of exposure (generally greater than \$10.0 million) or a material risk of the Company incurring a loss greater than \$0.5 million. The closely monitored credits also include investment grade (IG) risks where credit quality is deteriorating and where, in the view of the Company, there is significant potential that the risk quality will fall below investment grade. The closely monitored credits include approximately 97% of our BIG exposure, and the remaining BIG exposure of \$45.5 million is distributed across 80 different credits, as of March 31, 2006. As of December 31, 2005, the closely monitored credits include approximately 96% of our BIG exposure, and the remaining BIG exposure of \$55.2 million is distributed across 103 different credits. Other than those excluded BIG credits, credits that are not included in the closely monitored credit list are categorized as fundamentally sound risks.

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

| | As of March 31, 2006 | | | | | |
|-----------------------------------|----------------------|--|--------------------------|---|--------------------------|---------------|
| Description: | Net Par Outstanding | | % of Net Par Outstanding | | # of Credits in Category | Case Reserves |
| | (\$ in millions) | | | | | |
| Fundamentally sound risk(1) | \$ 105,480 | | 98.7 | % | | |
| Closely monitored: | | | | | | |
| Category 1 | 786 | | 0.7 | % | 35 | \$ |
| Category 2 | 369 | | 0.4 | % | 20 | |
| Category 3 | 213 | | 0.2 | % | 19 | 23 |
| Category 4 | 23 | | | | 11 | 16 |
| Sub total | 1,391 | | 1.3 | % | 85 | 39 |
| Other below investment grade risk | 46 | | | | 80 | |
| Total | \$ 106,917 | | 100.0 | % | | \$ 39 |

(1) As of March 31, 2006, Category 1 contains 3 credits with net par outstanding of \$59.7 million and Category 2 contains 6 credits with net par outstanding of \$51.0 million related to Hurricane Katrina.

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

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

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

| Net Par Outstanding | Category 1 | Category 2 | Category 3 | Category 4 | Total CMC |
|----------------------------|------------------|------------|------------|------------|-----------|
| | (\$ in millions) | | | | |
| Balance, December 31, 2005 | \$ 872 | \$ 433 | \$ 131 | \$ 23 | \$ 1,459 |
| Less: Amortization | 77 | (22) | 7 | | 62 |
| Add: Additions From: | | | | | |
| First time on CMC | 14 | | 16 | | 30 |
| Upgrades | 37 | 16 | | | 53 |
| Downgrades | | 24 | 89 | | 113 |
| Less: Deletions From: | | | | | |
| Upgrades | 36 | 37 | 16 | | 89 |
| Downgrades | 24 | 89 | | | 113 |
| Net Change | (86) | (64) | 82 | | (68) |
| Balance, March 31, 2006 | \$ 786 | \$ 369 | \$ 213 | \$ 23 | \$ 1,391 |

Industry Methodology

The Company is aware that there are certain differences regarding the measurement of portfolio loss liabilities among companies in the financial guaranty industry. In January and February 2005, the Securities and Exchange Commission (SEC) staff had discussions concerning these differences with a number of industry participants. Based on those discussions, in June 2005, the Financial Accounting Standards Board (FASB) staff decided additional guidance is necessary regarding financial guaranty contracts. When the FASB staff reaches a conclusion on this issue, which is expected during the first half of 2006, the Company and the rest of the financial guaranty industry may be required to change some aspects of their loss reserving policies, but the Company cannot currently assess how the FASB or SEC staffs ultimate resolution of this issue will impact our reserving policy or other balances, i.e., premiums and DAC. Until the issue is resolved, the Company intends to continue to apply its existing policy with respect to the establishment of both case and portfolio reserves.

Valuation of Derivative Financial Instruments

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

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

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

The fair value of these instruments depends on a number of factors including credit spreads, changes in interest rates, recovery rates and the credit ratings of referenced entities. Where available, we use quoted market

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

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

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

The fair value adjustment recognized in our statements of operations for the three months ended March 31, 2006 (First Quarter 2006) was a \$29,000 gain compared with a \$3.1 million gain for the three months ended March 31, 2005 (First Quarter 2005). The change in fair value is related to many factors but primarily due to widening in credit spreads.

Valuation of Investments

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

As of March 31, 2006, approximately 94% of our investments were long-term fixed maturity securities, and our portfolio had an average duration of 4.4 years, compared with 95% and 4.4 years as of December 31, 2005. Changes in interest rates affect the value of our fixed maturity portfolio. As interest rates fall, the fair value of fixed maturity securities increases and as interest rates rise, the fair value of fixed maturity securities decreases.

Other than Temporary Impairments

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

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether scheduled interest payments are past due; and

- whether we have the ability and intent to hold the security for a sufficient period of time to allow for anticipated recoveries in fair value.

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

The Company had no write downs of investments for other than temporary impairment losses for the three-month periods ended March 31, 2006 and 2005.

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

| Length of Time in Continuous Unrealized Loss | As of March 31, 2006 | | As of December 31, 2005 | |
|--|----------------------|-------------------------|-------------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | (\$ in millions) | | | |
| Municipal securities | | | | |
| 0-6 months | \$ 104.5 | \$ (0.9) | \$ 103.2 | \$ (0.9) |
| 7-12 months | 59.1 | (1.5) | 11.9 | (0.3) |
| Greater than 12 months | 14.0 | (0.5) | 13.1 | (0.4) |
| | 177.6 | (2.9) | 128.2 | (1.6) |
| Corporate securities | | | | |
| 0-6 months | 17.8 | (0.3) | 21.4 | (0.4) |
| 7-12 months | 17.4 | (0.6) | 13.4 | (0.2) |
| Greater than 12 months | 29.8 | (1.2) | 16.8 | (0.7) |
| | 65.0 | (2.1) | 51.6 | (1.3) |
| U.S. Government obligations | | | | |
| 0-6 months | 128.0 | (2.2) | 160.5 | (0.8) |
| 7-12 months | 85.7 | (1.1) | 8.7 | (0.2) |
| Greater than 12 months | 21.7 | (0.6) | 13.2 | (0.4) |
| | 235.4 | (3.9) | 182.4 | (1.4) |
| Mortgage and asset-backed securities | | | | |
| 0-6 months | 171.8 | (2.0) | 318.8 | (4.7) |
| 7-12 months | 305.3 | (9.0) | 136.8 | (2.6) |
| Greater than 12 months | 164.3 | (6.8) | 89.7 | (2.9) |
| | 641.4 | (17.8) | 545.3 | (10.2) |
| Total | \$ 1,119.4 | \$ (26.7) | \$ 907.5 | \$ (14.5) |

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

| Remaining Time to Maturity | As of March 31, 2006 | | As of December 31, 2005 | |
|---|----------------------|-------------------------|-------------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| | (\$ in millions) | | | |
| Municipal securities | | | | |
| Due in one year or less | \$ | \$ | \$ | \$ |
| Due after one year through five years | 0.9 | | 0.3 | |
| Due after five years through ten years | 56.2 | (1.6) | 60.1 | (1.2) |
| Due after ten years | 120.5 | (1.3) | 67.8 | (0.4) |
| | 177.6 | (2.9) | 128.2 | (1.6) |
| Corporate securities | | | | |
| Due in one year or less | 4.0 | (0.1) | | |
| Due after one year through five years | 48.7 | (1.4) | 44.3 | (1.0) |
| Due after five years through ten years | 4.3 | (0.1) | 4.2 | |
| Due after ten years | 8.0 | (0.5) | 3.1 | (0.3) |
| | 65.0 | (2.1) | 51.6 | (1.3) |
| U.S. Government obligations | | | | |
| Due in one year or less | 38.8 | (0.1) | 57.8 | (0.2) |
| Due after one year through five years | 47.7 | (0.4) | 39.5 | (0.3) |
| Due after five years through ten years | 54.5 | (1.2) | 45.2 | (0.6) |
| Due after ten years | 94.4 | (2.2) | 39.9 | (0.3) |
| | 235.4 | (3.9) | 182.4 | (1.4) |
| Mortgage and asset-backed securities | | | | |
| Total | \$ 1,119.4 | \$ (26.7) | \$ 907.5 | \$ (14.5) |

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

| Length of Time in Continuous Unrealized Loss Prior to Sale | Three Months Ended March 31, | | | | | |
|--|---------------------------------|--|-----------------------------|----------------------------|--|-----------------------------|
| | 2006 | | | 2005 | | |
| | Estimated Fair Value | | Gross Realized Losses | Estimated Fair Value | | Gross Realized Losses |
| | (\$ in millions) | | | | | |
| Municipal securities | | | | | | |
| 0-6 months | \$ 5.4 | | \$ | \$ | | \$ |
| 7-12 months | 13.0 | | (0.3) | 5.5 | | (0.1) |
| Greater than 12 months | | | | | | |
| | 18.4 | | (0.3) | 5.5 | | (0.1) |
| | | | | | | |
| Corporate securities | | | | | | |
| 0-6 months | | | | | | |
| 7-12 months | | | | | | |
| Greater than 12 months | | | | | | |
| | | | | | | |
| | | | | | | |
| U.S. Government securities | | | | | | |
| 0-6 months | 85.3 | | (1.3) | 10.4 | | |
| 7-12 months | 30.1 | | (0.4) | 4.9 | | (0.1) |
| Greater than 12 months | | | | | | |
| | 115.4 | | (1.7) | 15.3 | | (0.1) |
| | | | | | | |
| Mortgage and asset-backed securities | | | | | | |
| 0-6 months | 27.2 | | (0.1) | 10.2 | | (0.2) |
| 7-12 months | | | | 1.8 | | |
| Greater than 12 months | | | | 3.3 | | (0.3) |
| | 27.2 | | (0.1) | 15.3 | | (0.5) |
| Total | \$ 161.0 | | \$ (2.1) | \$ 36.1 | | \$ (0.7) |

Premium Revenue Recognition

Premiums are received either upfront or in installments. Upfront premiums are earned in proportion to the expiration of the related risk. Each installment premium is earned ratably over its installment period, generally one year or less. For the financial guaranty direct and financial guaranty reinsurance segments, earned premiums related to upfront premiums are greater in the earlier periods of an upfront transaction when there is a higher amount of risk outstanding. The premiums are allocated in accordance with the principal amortization schedule of the related bond issue and are earned ratably over the amortization period. When an insured issue is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, the remaining unearned premium reserve is earned at that time. Unearned premium reserves represent the portion of premiums written that are applicable to the unexpired amount at risk of insured bonds.

In our reinsurance businesses, we estimate the ultimate written and earned premiums to be received from a ceding company at the end of each quarter and the end of each year because some of our ceding companies report premium data anywhere from 30 to 90 days after the end of the relevant period. Written premiums reported in our statement of operations are based upon reports received from ceding companies supplemented by our own estimates of premium for which ceding company reports have not yet been received. As of March 31, 2006 and December 31, 2005, the assumed premium estimate and related ceding commissions included in our unaudited interim consolidated financial statements were \$9.4 million and \$2.8 million and \$14.3 million and \$4.5 million, respectively. Key assumptions used to arrive at management's best estimate of assumed premiums are premium amounts reported historically and informal communications with ceding companies. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined. Historically, the differences have not been material. We do not record a provision for doubtful accounts related to our assumed premium estimate. Historically there have not been any material issues related to the collectibility of assumed premium. No provision for doubtful accounts related to our premium receivable was recorded for 2006 or 2005.

Deferred Acquisition Costs

Acquisition costs incurred, other than those associated with credit derivative products, that vary with and are directly related to the production of new business are deferred and amortized in relation to earned premiums. These costs include direct and indirect expenses such as ceding commissions, brokerage expenses and the cost of underwriting and marketing personnel. As of March 31, 2006 and December 31, 2005, we had deferred acquisition costs of \$195.9 million and \$193.4 million, respectively. Ceding commissions paid to primary insurers are the largest component of deferred acquisition costs, constituting 70.6% and 72.6% of total deferred acquisition costs as of March 31, 2006 and December 31, 2005, respectively. Management uses its judgment in determining what types of costs should be deferred, as well as what percentage of these costs should be deferred. We annually conduct a study to determine which operating costs vary with, and are directly related to, the acquisition of new business and qualify for deferral. Ceding commissions received on premiums we cede to other reinsurers reduce acquisition costs. Anticipated losses, LAE and the remaining costs of servicing the insured or reinsured business are considered in determining the recoverability of acquisition costs. Acquisition costs associated with credit derivative products are expensed as incurred. When an insured issue is retired early, as discussed in the Premium Revenue Recognition section of these Critical Accounting Estimates, the remaining related deferred acquisition cost is expensed at that time.

Deferred Income Taxes

As of March 31, 2006 and December 31, 2005, we had a net deferred income tax liability of \$25.4 million and \$26.6 million, respectively. Certain of our subsidiaries are subject to U.S. income tax. Deferred income tax assets and liabilities are established for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted rates in effect for the year in which the differences are expected to reverse. Such temporary differences relate principally to deferred acquisition costs, reserves for losses and LAE, unearned premium reserves, net operating loss carryforwards (NOLs), unrealized gains and losses on investments and derivative financial instruments and statutory contingency reserves. A valuation allowance is recorded to reduce a deferred tax asset to the amount that in management's opinion is more likely than not to be realized.

As of March 31, 2006, Assured Guaranty Re Overseas Ltd. (AGRO) had a stand-alone NOL of \$56.6 million, which is available to offset its future U.S. taxable income. The Company has \$35.9 million of this

NOL available through 2017; \$20.7 million available through 2023. AGRO's stand-alone NOL is not permitted to offset income of any other members of AGRO's consolidated group due to certain tax regulations. Under applicable accounting rules, we are required to establish a valuation allowance for NOLs that we believe are more likely than not to expire before utilized. Management believes it is more likely than not that \$20.0 million of AGRO's \$56.6 million NOL will not be utilized before it expires and has established a \$7.0 million valuation allowance related to the NOL deferred tax asset. The valuation allowance is subject to considerable judgment, is reviewed quarterly and will be adjusted to the extent actual taxable income differs from estimates of future taxable income that may be used to realize NOLs.

Accounting for Share-Based Compensation

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

Effective January 1, 2006, we adopted the fair value recognition provisions of FAS No. 123 (revised), *Share-Based Payment* (FAS 123R) using the modified prospective transition method. Under that transition method, compensation expense includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R. In addition, the Company capitalized \$0.6 million of share-based compensation as deferred acquisition costs (DAC). Because we elected to use the modified prospective transition method, results for prior periods have not been restated. The following table presents pre-DAC and pre-tax, share-based compensation cost by share-based expense type:

| | Three Months Ended March 31, | |
|--|------------------------------|-----------------|
| (in thousands of U.S. dollars) | 2006 | 2005 |
| Share-Based Employee Cost | | |
| <i>Restricted Stock</i> | | |
| Recurring amortization | \$ 1,807 | \$ 1,179 |
| Accelerated amortization for retirement eligible employees | 443 | |
| Subtotal | 2,250 | 1,179 |
| <i>Stock Options</i> | | |
| Recurring amortization | 1,044 | |
| Accelerated amortization for retirement eligible employees | 205 | |
| Subtotal | 1,249 | |
| <i>ESPP</i> | 32 | |
| Total Share-Based Employee Cost | 3,531 | 1,179 |
| Share-Based Directors Cost | | |
| <i>Restricted Stock</i> | 67 | 30 |
| <i>Restricted Stock Units</i> | 184 | 158 |
| Total Share-Based Directors Cost | 251 | 188 |
| Total Share-Based Cost | \$ 3,782 | \$ 1,367 |

At March 31, 2006, there was \$29.7 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average period of 2.0 years. As a result of the adoption of FAS 123R, the income tax effects of compensatory stock options are included in the computation of the income tax expense (benefit), and deferred tax assets and liabilities, subject to certain prospective adjustments to shareholders' equity for the differences between the income tax effects of expenses recognized in the results of operations and the related amounts deducted for income tax purposes. Prior to the adoption of FAS 123R the tax benefits relating to the income tax deductions for compensatory stock options were recorded directly to shareholders' equity.

The weighted-average grant-date fair values of options granted were \$6.71 and \$4.51 for First Quarter 2006 and First Quarter 2005, respectively. The fair value of options issued is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2006 and 2005:

| | Three Months Ended March 31, | | | |
|-------------------------|------------------------------|---|---------|---|
| | 2006 | | 2005 | |
| Dividend yield | 0.5 | % | 0.7 | % |
| Expected volatility | 20.44 | % | 20.80 | % |
| Risk free interest rate | 4.6 | % | 4.1 | % |
| Expected life | 5 years | | 5 years | |
| Forfeiture rate | 6.0 | % | 6.0 | % |

These assumptions were based on the following:

- The expected dividend yield is based on the current expected annual dividend and share price on the grant date,
- Expected volatility is estimated at the date of grant based on the historical share price volatility, calculated on a daily basis,
- The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term to the granted stock options,
- The expected life is based on the average expected term of our guideline companies, which are defined as similar entities, since the Company has insufficient expected life data,
- The forfeiture rate is based on the rate used by our guideline companies, since the Company has insufficient forfeiture data. Estimated forfeitures will be reassessed at each balance sheet date and may change based on new facts and circumstances.

For options granted before January 1, 2006, the Company amortizes the fair value on an accelerated basis. For options granted on or after January 1, 2006, the Company amortizes the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods. The Company may elect to use different assumptions under the Black-Scholes option valuation model in the future, which could materially affect the Company's net income or earnings per share.

Consolidated Results of Operations(1)

The following table presents summary consolidated results of operations data for the three months ended March 31, 2006 and 2005.

| | Three Months Ended March 31, | | | |
|--|---------------------------------|-------|------|-------|
| | 2006 | | 2005 | |
| | (\$ in millions) | | | |
| | | | | |
| Revenues: | | | | |
| Gross written premiums | \$ | 55.4 | \$ | 78.1 |
| Net written premiums | | 50.8 | | 76.5 |
| | | | | |
| Net earned premiums | | 48.1 | | 48.1 |
| Net investment income | | 26.2 | | 23.1 |
| Net realized investment (losses)gains | | (1.0) |) | 1.8 |
| Unrealized gains on derivative financial instruments | | | | 3.1 |
| Other income | | | | 0.3 |
| Total revenues | | 73.3 | | 76.4 |
| | | | | |
| Expenses: | | | | |
| Loss and loss adjustment expenses | | (0.4) |) | (9.4) |
| Profit commission expense | | 1.3 | | 1.0 |
| Acquisition costs | | 10.8 | | 10.2 |
| Operating expenses | | 17.2 | | 14.5 |
| Interest expense | | 3.4 | | 3.3 |
| Other expenses | | 0.6 | | |
| Total expenses | | 32.9 | | 19.6 |
| | | | | |
| Income before provision for income taxes | | 40.5 | | 56.8 |
| | | | | |
| Provision for income taxes | | 5.6 | | 12.4 |
| Net income | \$ | 34.9 | \$ | 44.3 |
| | | | | |
| Underwriting gain by segment(2): | | | | |
| Financial guaranty direct | \$ | 7.2 | \$ | 9.0 |
| Financial guaranty reinsurance | | 8.0 | | 19.2 |
| Mortgage guaranty | | 2.8 | | 2.6 |
| Other | | 1.2 | | 1.1 |
| Total | \$ | 19.2 | \$ | 31.9 |

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

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

We organize our business around four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. There are a number of lines of business that we have exited as part of our IPO in April 2004, which are included in the other segment. However, the results of these businesses are reflected in the above numbers. These businesses include equity layer credit protection, trade credit reinsurance, title reinsurance and auto residual value reinsurance. These unaudited interim consolidated financial statements cover the three-month period ended March 31, 2006 (First Quarter 2006) and the three-month period ended March 31, 2005 (First Quarter 2005).

Net Income

Net income was \$34.9 million and \$44.3 million for First Quarter 2006 and First Quarter 2005, respectively. The decrease of \$9.4 million in 2006 compared with 2005 is primarily due to an underwriting gain of \$19.2 million in 2006, representing a \$12.7 million decrease compared with a \$31.9 million underwriting gain in 2005, which included loss recoveries of \$7.9 million. Further contributing to the decrease is unrealized gains on derivative financial instruments which had a \$29,000 gain in First Quarter 2006 compared with a gain of \$3.1 million in First Quarter 2005. Offsetting the decrease was a \$6.8 million reduction in our income tax provision which was \$5.6 million in 2006, compared with \$12.4 million in 2005, primarily attributable to the relative distribution of income across our taxable and non-taxable jurisdictions.

Gross Written Premiums

| | Three Months Ended March 31, | | | |
|---|---------------------------------|------|------|------|
| Gross Written Premiums | 2006 | | 2005 | |
| | (\$ in millions) | | | |
| | | | | |
| Financial guaranty direct | \$ | 30.2 | \$ | 23.8 |
| Financial guaranty reinsurance | | 18.8 | | 34.0 |
| Mortgage guaranty | | 2.6 | | 19.4 |
| Total financial guaranty gross written premiums | | 51.6 | | 77.2 |
| Other | | 3.8 | | 0.9 |
| Total gross written premiums | \$ | 55.4 | \$ | 78.1 |

Gross written premiums for First Quarter 2006 were \$55.4 million compared with \$78.1 million for First Quarter 2005. Gross written premiums from our financial guaranty direct operations increased \$6.4 million in 2006 compared with 2005, as we continue to execute our direct business strategy. This increase was offset by a \$15.2 million reduction in gross written premiums in First Quarter 2006 compared with First Quarter 2005 from our financial guaranty reinsurance segment. This reduction is attributable to a \$10.4 million and \$4.8 million reduction in treaty and facultative assumed premiums, respectively. Further offsetting the financial guaranty direct increase was a \$16.8 million reduction in our mortgage guaranty segment, primarily attributable to single transaction executed in First Quarter 2005 which contributed \$16.3 million to gross written premiums.

Net Earned Premiums

| | Three Months Ended March 31, | | | |
|--|---------------------------------|------|------|------|
| Net Earned Premiums | 2006 | | | 2005 |
| | (\$ in millions) | | | |
| | | | | |
| Financial guaranty direct | \$ | 20.7 | \$ | 20.4 |
| Financial guaranty reinsurance | 23.3 | | 23.0 | |
| Mortgage guaranty | 4.2 | | 4.6 | |
| Total financial guaranty net earned premiums | 48.1 | | 48.1 | |
| Other | | | | |
| Total net earned premiums | \$ | 48.1 | \$ | 48.1 |

Net earned premiums of \$48.1 million for First Quarter 2006, was unchanged with the same period of 2005. Financial guaranty direct net earned premiums increased \$0.3 million in First Quarter 2006, compared with

First Quarter 2005. However, 2005 financial guaranty direct segment included \$4.4 million of single name corporate credit default swap (CDS) net earned premiums, primarily due to a novation of the business, which generated \$2.4 million of net earned premiums.

Net Investment Income

Net investment income was \$26.2 million for First Quarter 2006, compared with \$23.1 million for First Quarter 2005. The \$3.1 million increase is attributable to increasing investment yields during the year, combined with increased invested assets due to operating cash flows.

Net Realized Investment (Losses)Gains

Net realized investment (losses)gains, principally from the sale of fixed maturity securities, were \$(1.0) million and \$1.8 million for First Quarter 2006 and First Quarter 2005, respectively. The Company had no write downs of investments for other than temporary impairment losses for both the three months ended March 31, 2006 and 2005. Net realized investment (losses)gains, net of related income taxes, were \$(0.6) million and \$1.5 million for First Quarter 2006 and First Quarter 2005, respectively.

Unrealized Gains on Derivative Financial Instruments

Derivative financial instruments are recorded at fair value as required by FAS 133 and FAS 149. However, as explained under Critical Accounting Estimates, we record part of the change in fair value in the loss and LAE reserves as well as in unearned premium reserves. The fair value adjustment for First Quarter 2006 and First Quarter 2005 was a \$29,000 gain and \$3.1 million gain, respectively. The change in fair value for both years is related to many factors but primarily due to run-off of deals and changes in credit spreads. Unrealized (losses) gains on derivative financial instruments, net of related income taxes, were \$(0.1) million and \$1.5 million for First Quarter 2006 and First Quarter 2005, respectively.

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

Loss and Loss Adjustment Expenses

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| Loss and Loss Adjustment Expenses | 2006 | 2005 |
| | (\$ in millions) | |
| Financial guaranty direct | \$ (1.8) | \$ (1.5) |
| Financial guaranty reinsurance | 2.8 | (7.1) |
| Mortgage guaranty | (0.2) | 0.2 |
| Total financial guaranty loss and loss adjustment expenses | 0.8 | (8.4) |
| Other | (1.2) | (1.1) |
| Total loss and loss adjustment expenses | \$ (0.4) | \$ (9.4) |

Loss and loss adjustment expenses for First Quarter 2006 and First Quarter 2005 were \$(0.4) million and \$(9.4) million, respectively. The financial guaranty reinsurance segment increased \$9.9 million to \$2.8 million in First Quarter 2006, when compared to First Quarter 2005. This is mainly attributable to loss recoveries of \$7.9 million in First Quarter 2005 compared with \$1.2 million First Quarter 2006.

Profit Commission Expense

Profit commissions, which are primarily related to our mortgage guaranty segment, allow the ceding company to share favorable experience on a reinsurance contract due to lower than expected losses. Profit commissions for First Quarter 2006 and First Quarter 2005 were \$1.3 million and \$1.0 million, respectively. Favorable loss development generates increased profit commission expense, while the inverse occurs on unfavorable loss development.

Acquisition Costs

Acquisition costs primarily consist of ceding commissions, brokerage fees and operating expenses that are related to the acquisition of new business. Acquisition costs that vary with and are directly related to the acquisition of new business are deferred and amortized in relation to earned premium. For First Quarter 2006 and First Quarter 2005, acquisition costs were \$10.8 million and \$10.2 million, respectively. The \$0.6 million increase in 2006 compared 2005 is due to the accelerated recognition of ceding commissions associated with the increase in refunding premiums discussed in the financial guaranty reinsurance segment.

Operating Expenses

For First Quarter 2006 and First Quarter 2005, operating expenses were \$17.2 million and \$14.5 million, respectively. The \$2.7 million increase in 2006 is primarily due to increased salaries and related employee benefits, due to staffing additions and merit increases. The Company adopted FAS 123R on January 1, 2006, which requires, among other items, the recognition of stock option expense in the results of operations. As a result of the adoption of FAS 123R, the Company recognized an additional \$1.7 million of compensation expense, compared with the same period last year. Also included in both First Quarter 2006 and First Quarter 2005 are \$0.8 million of contributions to our defined contribution plans. These amounts however, are greater in the first quarter than the remaining nine months of the respective years, due to the payment of bonuses in the first quarter. The Company also recorded \$0.7 million in supplemental retirement contributions during First Quarter 2006, an increase of \$0.4 million compared with First Quarter 2005, as the Company began contributing to the supplemental retirement plan on a bi-weekly basis beginning on January 1, 2006. Prior to January 1, 2006, the Company made a lump contribution to the supplemental retirement plan in connection with the payment of bonuses. As with the defined contribution plan, the bonus paid in first quarter impacted this contribution.

Other Expenses

For First Quarter 2006 and First Quarter 2005, other expenses were \$4.0 million and \$3.3 million, respectively. The 2006 amount is comprised of \$0.6 million of put option premiums associated with Assured Guaranty Corp.'s (AGC) \$200.0 million committed capital securities and \$3.4 million interest expense primarily related to the issuance of our 7% Senior Notes (Senior Notes) in May 2004. The coupon on the Senior Notes is 7.0%, however, the effective rate will be approximately 6.4%, taking into account the effect of a cash flow hedge executed by the Company in March 2004. The 2005 amount is solely comprised of interest expense primarily related to the issuance of our Senior Notes.

Income Tax

For First Quarter 2006 and First Quarter 2005, income tax expense was \$5.6 million and \$12.4 million, respectively. Our effective tax rate was 13.8 % and 21.9% for First Quarter 2006 and First Quarter 2005, respectively. Our effective tax rates reflect the proportion of income recognized by each of our operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, UK subsidiaries taxed at the UK marginal corporate tax rate of 30%, and no taxes for our Bermuda holding company and subsidiaries. Accordingly, our overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions. First Quarter 2005 included a \$6.8 million recovery at a US tax paying subsidiary, relating to a reinsurance claim incurred in 1998 and 1999. This recovery was the primary reason for the 21.9% effective tax rate.

Segment Results of Operations

Our financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. Management uses underwriting gains and losses as the primary measure of each segment's financial performance. Underwriting gain includes net premiums earned, loss and loss adjustment expenses, profit commission expense, acquisition costs and other operating expenses that are directly related to the operations of our insurance businesses. This measure excludes certain revenue and expense items, such as investment income, realized investment gains and losses, unrealized gains and losses on derivative financial instruments, and interest expense, that are not directly related to the underwriting performance of our insurance operations, but are included in net income.

Financial Guaranty Direct Segment

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

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

| | Three Months Ended March 31, 2006 | | | | 2005 (\$ in millions) | | | |
|--|---|------|----|----|--------------------------|----|--|--|
| Gross written premiums | \$ | 30.2 | | \$ | 23.8 | | | |
| Net written premiums | | 29.7 | | | 23.1 | | | |
| Net earned premiums | | 20.7 | | | 20.4 | | | |
| Loss and loss adjustment expenses | | (1.8 |) | | (1.5 |) | | |
| Profit commission expense | | | | | | | | |
| Acquisition costs | | 1.8 | | | 1.5 | | | |
| Operating expenses | | 13.4 | | | 11.4 | | | |
| Underwriting gain | \$ | 7.2 | | \$ | 9.0 | | | |
| Loss and loss adjustment expense ratio | | (8.7 |)% | | (7.1 |)% | | |
| Expense ratio | | 73.8 | % | | 63.2 | % | | |
| Combined ratio | | 65.1 | % | | 56.1 | % | | |

| | Three Months Ended March 31, | | | | |
|------------------------|---------------------------------|------|--|------|------|
| Gross Written Premiums | 2006 | | | 2005 | |
| | (\$ in millions) | | | | |
| | | | | | |
| Public finance | \$ | 8.9 | | \$ | 1.6 |
| Structured finance | | 21.3 | | | 22.2 |
| Total | \$ | 30.2 | | \$ | 23.8 |

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For First Quarter 2006 the financial guaranty direct segment contributed \$30.2 million to gross written premiums, an increase of \$6.4 million, compared with \$23.8 million for First Quarter 2005. The increase reflects our continued execution of our direct business strategy and increased market share.

Gross written premiums from the structured finance and credit derivatives markets are generally received on an installment basis, while gross written premiums from public finance are generally received on an upfront basis. For First Quarter 2006, 28% of gross written premiums in this segment were upfront premiums and 72% were installment premiums. For First Quarter 2005, 15% of gross written premiums in this segment were upfront premiums and 85% were installment premiums.

| | Three Months Ended March 31, | | | | |
|----------------------|---------------------------------|------|--|------|------|
| Net Written Premiums | 2006 | | | 2005 | |
| | (\$ in millions) | | | | |
| | | | | | |
| Public finance | \$ | 8.9 | | \$ | 1.4 |
| Structured finance | 20.8 | | | 21.7 | |
| Total | \$ | 29.7 | | \$ | 23.1 |

For First Quarter 2006 and 2005, net written premiums were \$29.7 million and \$23.1 million, respectively. The increase in net written premiums is primarily due to increase in gross written premiums as we typically do not cede a significant amount of premium to external reinsurers.

| | Three Months Ended March 31, | | | | |
|---------------------|---------------------------------|------|--|------|------|
| Net Earned Premiums | 2006 | | | 2005 | |
| | (\$ in millions) | | | | |
| | | | | | |
| Public finance | \$ | 1.1 | | \$ | 0.1 |
| Structured finance | | 19.6 | | | 20.3 |
| Total | \$ | 20.7 | | \$ | 20.4 |

Net earned premiums for First Quarter 2006 were \$20.7 million compared with \$20.4 million for First Quarter 2005. Included in 2005 financial guaranty direct net earned premiums is \$4.4 million of corporate CDS net earned premiums, primarily due to a novation of the business which generated \$2.4 million of net earned premiums. First Quarter 2006 included only \$0.3 million of net earned premiums from this line of business.

Loss and LAE were \$(1.8) million and \$(1.5) million, respectively, for First Quarter 2006 and 2005. First Quarter 2006 included a \$3.2 million settlement of a sub-prime mortgage transaction, offset by a related \$0.7 million subrogation receivable and a \$4.5 million release of case reserves. This was partially offset by a \$0.2 million increase in portfolio reserves attributable to our increased gross written premiums discussed above. The First Quarter 2005 amount is attributable to a \$0.9 million release of portfolio reserves related to the single name corporate CDS line of business, as well as a release of portfolio reserves related to our CDO book of business as these deals approach maturity and the underlying credit quality improves.

For First Quarter 2006 and First Quarter 2005, acquisition costs were \$1.8 million and \$1.5 million, respectively. Acquisition costs generally are expensed in proportion to net earned premiums. Net earned premiums in 2005 included \$2.4 million from the novation of our single name corporate CDS business, with no offsetting acquisition expenses. Excluding the novation, the ratio of acquisition costs to net earned premiums are consistent period to period.

Operating expenses for First Quarter 2006 and First Quarter 2005 were \$13.4 million and \$11.4 million, respectively. During 2006 the Company implemented a new operating expense methodology to more closely apply expenses to the individual operating segments. This new methodology was based on a comprehensive study and is based on departmental time estimates and headcount. 2005 amounts have been restated to show this new

methodology on a comparative basis. The increase in operating expenses for First Quarter 2006, compared with First Quarter 2005 is due to increased salaries and employee related benefits, including the expensing of stock options, due to staffing additions and merit increases.

Financial Guaranty Reinsurance Segment

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

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

| | Three Months Ended March 31, | | | | | |
|--|---------------------------------|------|---|------|--------|----|
| | 2006 | | | 2005 | | |
| | (\$ in millions) | | | | | |
| | | | | | | |
| Gross written premiums | \$ | 18.8 | | \$ | 34.0 | |
| Net written premiums | | 18.5 | | | 34.0 | |
| Net earned premiums | | 23.3 | | | 23.0 | |
| Loss and loss adjustment expenses | | 2.8 | | | (7.1) |) |
| Profit commission expense | | 0.4 | | | | |
| Acquisition costs | | 8.7 | | | 8.1 | |
| Operating expenses | | 3.4 | | | 2.8 | |
| Underwriting gain | \$ | 8.0 | | \$ | 19.2 | |
| | | | | | | |
| Loss and loss adjustment expense ratio | | 12.0 | % | | (30.9) |)% |
| Expense ratio | | 53.6 | % | | 47.4 | % |
| Combined ratio | | 65.6 | % | | 16.5 | % |

| | Three Months Ended March 31, | | | | |
|------------------------|---------------------------------|------|------|----|------|
| Gross Written Premiums | 2006 | | 2005 | | |
| | (\$ in millions) | | | | |
| | | | | | |
| Public finance | \$ | 11.4 | | \$ | 23.2 |
| Structured finance | | 7.4 | | | 10.8 |
| Total | \$ | 18.8 | | \$ | 34.0 |

Gross written premiums for our financial guaranty reinsurance segment include upfront premiums on transactions underwritten during the period, plus installment premiums on business primarily underwritten in prior periods. Consequently, this amount is affected by changes in the business mix between public finance, which tends to be upfront premium, and structured finance, which tends to be installment premium. For First Quarter 2006, 47% of gross written premiums in this segment were upfront premiums and 53% were installment premiums. For First Quarter 2005, 64% of gross written premiums in this segment were upfront premiums and 36% were installment premiums.

Gross written premiums for First Quarter 2006 were \$18.8 million, a decrease of \$15.2 million, compared with \$34.0 million for First Quarter 2005. This decrease is mainly attributable to \$10.4 million and \$4.8 million reduction in treaty and facultative assumed premiums, respectively.

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

| | Three Months Ended March 31, | | | |
|--------------------------------------|---------------------------------|-----|------|------|
| Gross Written Premiums by Client | 2006 | | | 2005 |
| | (\$ in millions) | | | |
| | | | | |
| Financial Security Assurance Inc. | \$ | 7.5 | \$ | 22.2 |
| Ambac Assurance Corporation | 4.3 | | 10.7 | |
| MBIA Insurance Corporation | 3.5 | | 4.6 | |
| Financial Guaranty Insurance Company | 3.4 | | 2.3 | |

As of April 1, 2005 our quota share reinsurance treaty with Ambac Assurance Corporation (Ambac) was renewed. In addition, Assured Guaranty Re Ltd. (AG Re) entered into a master facultative agreement with Ambac on March 31, 2005. On April 20, 2005, Ambac provided notice of a non-renewal of the quota share treaty on a run-off basis, effective July 1, 2006. This non-renewal will not affect business ceded from Ambac in any prior year, or business ceded under the current quota share treaty through June 30, 2006.

| | Three Months Ended March 31, | | | |
|----------------------|---------------------------------|------|--|---------|
| Net Written Premiums | 2006 | | | 2005 |
| | (\$ in millions) | | | |
| | | | | |
| Public finance | \$ | 11.1 | | \$ 23.2 |
| Structured finance | 7.4 | | | 10.8 |
| Total | \$ | 18.5 | | \$ 34.0 |

For First Quarter 2006 and First Quarter 2005, net written premiums were \$18.5 million and \$34.0 million, respectively. This decrease of \$15.5 million is consistent with the decrease in gross written premium described above.

| | Three Months Ended March 31, | | | | |
|--|---------------------------------|------|--|------|------|
| Net Earned Premiums | 2006 | | | 2005 | |
| | (\$ in millions) | | | | |
| | | | | | |
| Public finance | \$ | 15.6 | | \$ | 11.0 |
| Structured finance | 7.7 | | | 12.0 | |
| Total | \$ | 23.3 | | \$ | 23.0 |
| | | | | | |
| Included in public finance reinsurance net earned premiums are refundings of | \$ | 3.6 | | \$ | 1.4 |

Net earned premiums for First Quarter 2006 was \$23.3 million compared with \$23.0 million for First Quarter 2005. Public finance net earned premiums include refunding premiums, which reflect the unscheduled pre-payment or refundings of underlying municipal bonds due to lower interest rates. These unscheduled refunding premiums, which were \$3.6 million for First Quarter 2006, compared with \$1.4 million for First Quarter 2005, are sensitive to market interest rates. We evaluate our net earned premiums both including and excluding these premiums.

Losses and LAE were \$2.8 million and \$(7.1) million for First Quarter 2006 and First Quarter 2005, respectively. First Quarter 2006 includes a \$2.5 million case reserve addition due to a U.S. public infrastructure transaction. Also included in the quarter are various additions to case reserves totaling \$0.7 million and incurred and paid LAE of \$0.6 million related to a European infrastructure transaction. Offsetting these additions was a \$1.0 million release of portfolio reserves. The predominant portion of the \$(7.1) million in 2005 was the recovery of \$6.8 million

relating to a reinsurance claim incurred in 1998 and 1999. This recovery was received in connection with the completion of two settlements.

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Profit commission expense was \$0.4 million in First Quarter 2006 primarily due to a reinsurance agreement, whereby AGC and AG Re, two of our subsidiaries, entered into an agreement with FSA pursuant to which substantially all of FSA's financial guaranty risks previously ceded to AGC were assumed by AG Re. This new agreement includes a profit commission component. There was no profit commission expense in 2005 as this transaction took place during the quarter ended June 30, 2005.

For First Quarter 2006 and First Quarter 2005, acquisition costs were \$8.7 million and \$8.1 million, respectively. Generally, acquisition costs are expensed in direct proportion to net earned premiums. The \$0.6 million increase in 2006 compared 2005 is due to the accelerated recognition of ceding commissions associated with the increase in refunding premiums discussed above.

Operating expenses for First Quarter 2006 and First Quarter 2005, were \$3.4 million and \$2.8 million, respectively. During 2006 the Company implemented a new operating expense methodology to more closely apply expenses to the individual operating segments. This new methodology was based on a comprehensive study and is based on departmental time estimates and headcount. 2005 amounts have been restated to show this new methodology on a comparative basis. The increase in operating expenses for First Quarter 2006, compared with First Quarter 2005 is due to increased salaries and related employee benefits, including the expensing of stock options, due to staffing additions and merit increases.

Mortgage Guaranty Segment

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

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

| | Three Months Ended March 31, | | | | | |
|--|---------------------------------|-------|----|------|------|---|
| | 2006 | | | 2005 | | |
| | (\$ in millions) | | | | | |
| | | | | | | |
| Gross written premiums | \$ | 2.6 | | \$ | 19.4 | |
| Net written premiums | | 2.6 | | | 19.4 | |
| Net earned premiums | | 4.2 | | | 4.6 | |
| Loss and loss adjustment expenses | | (0.2) |) | | 0.2 | |
| Profit commission expense | | 0.9 | | | 1.0 | |
| Acquisition costs | | 0.3 | | | 0.5 | |
| Operating expenses | | 0.3 | | | 0.3 | |
| | | | | | | |
| Underwriting gain | \$ | 2.8 | | \$ | 2.6 | |
| | | | | | | |
| Loss and loss adjustment expense ratio | | (3.7 |)% | | 4.3 | % |
| Expense ratio | | 36.1 | | % | 39.1 | % |
| | | | | | | |
| Combined ratio | | 32.4 | | % | 43.4 | % |
| | | | | | | |

Gross written premiums for First Quarter 2006 and First Quarter 2005 were \$2.6 million and \$19.4 million, respectively. The decrease in gross written premiums is primarily related to a single transaction executed in first quarter 2005 which contributed \$16.3 million to gross written premiums. Excluding this item, gross written premiums decreased \$0.5 million in First Quarter 2006, compared with First Quarter 2005, due to the run-off of our quota share treaty business.

Net written premiums for First Quarter 2006 and First Quarter 2005 were \$2.6 million and \$19.4 million, respectively. This is consistent with gross written premiums, as we do not cede a significant amount of our mortgage guaranty business.

For First Quarter 2006 and First Quarter 2005, net earned premiums were \$4.2 million and \$4.6 million, respectively. The decrease in net earned premiums reflects the run-off of our quota share treaty business.

Loss and LAE were \$(0.2) million and \$0.2 million for First Quarter 2006 and First Quarter 2005, respectively. During 2006, the Company reduced portfolio reserves by \$0.2 million reflecting the run-off of our quota share treaty business. During 2005, the Company added \$0.2 million to portfolio reserves, due to writing a single transaction mentioned above .

Profit commission expense for First Quarter 2006 and First Quarter 2005 was \$0.9 million and \$1.0 million, respectively. The decrease in profit commission expense for 2006 compared with 2005 is primarily due to the run-off of mortgage guaranty experience rated quota share treaties, which have a large profit commission component.

Acquisition costs for First Quarter 2006 and First Quarter 2005 were \$0.3 million and \$0.5 million, respectively. The decline in acquisition costs in 2006 as compared with 2005 is directly related to the decline in net earned premiums.

Operating expenses for First Quarter 2006 and First Quarter 2005, were \$0.3 million and \$0.3 million, respectively. During 2006 the Company implemented a new operating expense methodology to more closely apply expenses to the individual operating segments. This new methodology was based on a comprehensive study and is based on departmental time estimates and headcount. 2005 amounts have been restated to show this new methodology on a comparative basis. Though overall operating expenses increased, mortgage guaranty operating expenses remained flat in First Quarter 2006, compared with First Quarter 2005 as more time and resources are being focused on our financial guaranty direct segment and thus a greater share of the expenses have been allocated to that segment.

Other Segment

Our other segment consists of certain non-core businesses that we have exited in connection with the IPO, including, but not limited to, equity layer credit protection, trade credit reinsurance and title reinsurance .

The other segment had no earned premiums during First Quarter 2006 or First Quarter 2005. However, due to loss recoveries from our exited equity layer credit protection business, the other segment had \$1.2 million and \$1.1 million of underwriting gains for First Quarter 2006 and First Quarter 2005, respectively.

Liquidity and Capital Resources

Our liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the next twelve months), is largely dependent upon: (1) the ability of our operating subsidiaries to pay dividends or make other payments to us, (2) external financings and (3) investment income from our invested assets. Our liquidity requirements include the payment of our operating expenses, interest on our debt, and dividends on our common shares. We may also require liquidity to make periodic capital investments in our operating subsidiaries. In the ordinary course of our business, we evaluate our liquidity needs and capital resources in light of holding company expenses, debt-related expenses and our dividend policy, as well as rating agency considerations. Based on the amount of dividends we expect to receive from our subsidiaries and the income we expect to receive from our invested assets, management believes that we will have sufficient liquidity to satisfy our needs over the next twelve months, including the ability to pay dividends on our common shares in accordance with our dividend policy. Total cash paid in First Quarter 2006 and First Quarter 2005 for dividends to shareholders was \$2.6 million, or \$0.035 per common share, and \$2.3 million, or \$0.03 per common share, respectively. Beyond the next twelve months, the ability of our operating subsidiaries to declare and pay dividends may be influenced by a variety of factors including market conditions, insurance and rating agencies regulations and general economic conditions. Consequently, although management believes that we will continue to have sufficient liquidity to meet our debt service and other obligations over the long term, no guaranty can be given that we will not be required to seek external debt or equity financing in order to meet our operating expenses, debt service obligations or pay dividends on our common shares.

We anticipate that a major source of our liquidity, for the next twelve months and for the longer term, will be amounts paid by our operating subsidiaries as dividends. Certain of our operating subsidiaries are subject to restrictions on their ability to pay dividends. The amount available at AGC to pay dividends in 2006 with notice to, but without the prior approval of, the Maryland Insurance Commissioner is approximately \$25.6 million. AGC has committed to its rating agencies that it will not pay more than \$10.0 million per year in dividends, without prior consultation. Dividends paid by a U.S. company to a Bermuda holding company presently are subject to a 30% withholding tax. The amount available at AG Re to pay dividends in 2006 in compliance with Bermuda law is \$590.2 million.

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

Net cash flows provided by operating activities were \$20.4 million and \$57.2 million during First Quarter 2006 and First Quarter 2005, respectively. The decrease in cash flows provided by operating activities was due to reduced net income and \$26.3 million of profit commission payments, primarily related to quota share reinsurance agreements in our mortgage guaranty segment.

Net cash flows used in investing activities were \$19.8 million and \$35.4 million during First Quarter 2006 and First Quarter 2005, respectively. These investing activities consist of net purchases and sales of fixed maturity securities and short-term investments.

Net cash flows used in financing activities were \$3.1 million and \$17.0 million during First Quarter 2006 and First Quarter 2005. During First Quarter 2006 we paid \$2.6 million in dividends and \$0.4 million, net, under our option and incentive plans. During First Quarter 2005, we paid \$2.3 million in dividends and \$14.7 million to repurchase 0.8 million shares of our common shares under the Board of Directors authorized \$25.0 million stock repurchase program.

On May 4, 2006, the Company's Board of Directors approved a new share repurchase program for 1.0 million common shares. Share repurchases will take place at management's discretion depending on market conditions.

In April 2006, the Company repaid \$2.1 million of notes outstanding and related interest to subsidiaries of ACE. These notes were assumed in connection with the IPO.

As of March 31, 2006 our future cash payments associated with contractual obligations pursuant to our operating leases for office space and have not materially changed since December 31, 2005.

Credit Facilities

\$300.0 million Credit Facility

On April 15, 2005, Assured Guaranty Ltd. and certain of its subsidiaries entered into a \$300.0 million three-year unsecured revolving credit facility (the "\$300.0 million credit facility") with a syndicate of banks, for which ABN AMRO Incorporated and Bank of America, N.A. acted as lead arrangers and KeyBank National Association (KeyBank) acted as syndication agent. Under the \$300.0 million credit facility, each of AGC, Assured Guaranty (UK) Ltd. (AG (UK)), a subsidiary of AGC organized under the laws of the United Kingdom, Assured Guaranty Ltd., AG Re and AGRO are entitled to request the banks to make loans to such borrower or to request that letters of credit be issued for the account of such borrower. The \$300.0 million credit facility replaced (1) the \$250.0 million credit facility and (2) the Letter of Credit Agreement, both discussed below.

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

At the closing of the \$300.0 million credit facility, (i) AGC guaranteed the obligations of AG (UK) under such facility, (ii) Assured Guaranty Ltd. guaranteed the obligations of AG Re and AGRO under such facility and agreed that, if the Consolidated Assets (as defined in the related credit agreement) of AGC and its subsidiaries were to fall below \$1.2 billion, it would, within 15 days, guarantee the obligations of AGC and AG (UK) under such facility and (iii) Assured Guaranty Overseas US Holdings Inc., as a Material Non-AGC Subsidiary (as defined in the related credit agreement), guaranteed the obligations of Assured Guaranty Ltd., AG Re and AGRO under such facility. Subsequently, AG Re and AGRO, as Material Non-AGC Subsidiaries, both guaranteed the obligations of the other and of Assured Guaranty Ltd. under such facility.

The \$300.0 million credit facility's financial covenants require that Assured Guaranty Ltd. (a) maintain a minimum net worth of \$1.2 billion, (b) maintain an interest coverage ratio of at least 2.5:1, and (c) maintain a maximum debt-to-capital ratio of 30%. In addition, the \$300.0 million credit facility requires that AGC: (x) maintain qualified statutory capital of at least 80% of its statutory capital as of the fiscal quarter prior to the closing date of the facility and (y) maintain a ratio of aggregate net par outstanding to qualified statutory capital of not more than 150:1. Furthermore, the \$300.0 million credit facility contains restrictions on Assured Guaranty Ltd. and its subsidiaries, including, among other things, in respect of their ability to incur debt, permit liens, become liable in respect of guaranties, make loans or investments, pay dividends or make distributions, dissolve or become party to a merger, consolidation or acquisition, dispose of assets or enter into affiliate transactions. Most of these restrictions are subject to certain minimum thresholds and exceptions. A default by one borrower will give rise to a right of the lenders to terminate the facility and accelerate all amounts then outstanding. As of March 31, 2006 and December 31, 2005, Assured Guaranty was in compliance with all of those financial covenants.

As of March 31, 2006 and December 31, 2005, no amounts were outstanding under this facility nor have there been any borrowings under this facility.

\$250.0 million Credit Facility

On April 29, 2004, Assured Guaranty Ltd. and certain of its subsidiaries entered into a \$250.0 million unsecured credit facility (\$250.0 million credit facility), with a syndicate of banks, for which ABN AMRO Incorporated and Bank of America, N.A. acted as co-arrangers. Each of Assured Guaranty, AGC and AG (UK), was a party, as borrower. The \$250.0 million credit facility was terminated and replaced by the \$300.0 million credit facility discussed above.

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

Letter of Credit Agreement

On November 8, 2004, Assured Guaranty Ltd., AG Re and AGRO entered into a standby letter of credit agreement (the LOC Agreement) with KeyBank National Association (KeyBank). Under the LOC Agreement, KeyBank agreed to issue up to \$50.0 million in letters of credit on our behalf. The obligations of the Company, AG Re and AGRO under the LOC Agreement were joint and several. The letters of credit were used to satisfy AG Re's or AGRO's obligations under certain reinsurance agreements and for general corporate purposes. Under the LOC Agreement, KeyBank issued two letters of credit, both on behalf of AGRO, with an aggregate stated amount of approximately \$20.7 million. The parties to the LOC Agreement have agreed that no additional letters of credit would be issued, extended or renewed from and after the date of the closing of the \$300.0 million credit facility and letters of credit that were outstanding on such date will, unless cancelled and surrendered by the respective beneficiaries thereof, remain outstanding until their respective stated expiration dates of December 31, 2005. The LOC Agreement contains covenants that limit debt, liens, guaranties, loans and investments, dividends, liquidations, mergers, consolidations, acquisitions, sales of assets or subsidiaries and affiliate transactions. Most of these restrictions were subject to certain minimum thresholds and exceptions. The LOC Agreement also contained financial covenants that required the Company: (i) to maintain the ratio of consolidated debt to total capitalization at

not greater than 0.30 to 1.0; (ii) to maintain consolidated net worth of at least seventy-five percent (75%) of its consolidated net worth as of June 30, 2004; and (iii) to maintain the consolidated interest coverage ratio for any test period ending on the last day of a fiscal quarter at not less than 2.50 to 1.0. In addition, the LOC Agreement provided that the obligations of KeyBank to issue letters of credit may be terminated, and our obligations under the agreement may be accelerated, upon an event of default. As of December 31, 2004, no amounts were payable under any letter of credit issued under this facility. The LOC Agreement expired on April 28, 2005 and was replaced by the \$300.0 million credit facility discussed above.

Non-Recourse Credit Facility

AGC is also party to a non-recourse credit facility with a syndicate of banks which provides up to \$175.0 million specifically designed to provide rating agency-qualified capital to further support AGC's claims paying resources. The facility expires in December 2010. As of March 31, 2006 and December 31, 2005, no amounts were outstanding under this facility nor have there been any borrowings under the life of this facility.

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

Committed Capital Securities

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

Structure

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

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

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

Put Agreement

Pursuant to the Put Agreement, AGC will pay a monthly put premium to each Custodial Trust except (1) during any period when the AGC Preferred Stock that has been put to a Custodial Trust is held by that Custodial Trust or (2) upon termination of the Put Agreement. The put premium will equal the product of (A) the applicable distribution rate on the CCS Securities for the respective distribution period less the excess of (i) the Custodial Trust's stated return on the Eligible Assets for such distribution period (including any fees and expenses of the Pass-Through Trust) (expressed as an annual rate) over (ii) the expenses of the Custodial Trust for such distribution

period (expressed as an annual rate), (B) the aggregate face amount of the CCS Securities of the Custodial Trust outstanding on the date the put premium is calculated, and (C) a fraction, the numerator of which will be the actual number of days in such distribution period and the denominator of which will be 360. In addition, and as a condition to exercising the put option under a Put Agreement, AGC is required to enter into a Custodial Trust Expense Reimbursement Agreement with the respective Custodial Trust pursuant to which AGC agrees it will pay the fees and expenses of the Custodial Trust (which includes the fees and expenses of the Pass-Through Trust) during the period when such Custodial Trust holds AGC Preferred Stock.

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

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

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

AGC Preferred Stock

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

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

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

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

Following exercise of the put option during any Flexed Rate Period, AGC may redeem the AGC Preferred Stock held by a Custodial Trust in whole and not in part on any distribution payment date by paying a redemption

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

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

Investment Portfolio

Our investment portfolio consisted of \$2,114.1 million of fixed maturity securities, \$135.0 million of short-term investments and had a duration of 4.4 years as of March 31, 2006, compared with \$2,134.0 million of fixed maturity securities, \$115.8 million of short-term investments and had a duration of 4.4 years as of December 31, 2005. Our fixed maturity securities are designated as available-for-sale in accordance with FAS No. 115 Accounting for Certain Investments in Debt and Equity Securities (FAS 115). Fixed maturity securities are reported at their fair value in accordance with FAS 115, and the change in fair value is reported as part of accumulated other comprehensive income. If we believe the decline in fair value is other than temporary, we write down the carrying value of the investment and record a realized loss in our statement of operations.

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

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

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

| | As of March 31, 2006 | | As of December 31, 2005 | |
|-------------------|----------------------|---|-------------------------|---|
| AAA or equivalent | 84.4 | % | 84.9 | % |
| AA | 11.4 | % | 10.7 | % |
| A | 4.2 | % | 4.4 | % |
| BBB | | | | |
| Total | 100.0 | % | 100.0 | % |

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

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

Under agreements with our cedants and in accordance with statutory requirements, we maintain fixed maturity securities in trust accounts for the benefit of reinsured companies and for the protection of policyholders, generally in states where we or our subsidiaries, as applicable, are not licensed or accredited. The carrying value of such restricted balances as of March 31, 2006 and December 31, 2005 was \$491.4 million and \$552.8 million, respectively.

Under certain derivative contracts, we are required to post eligible securities as collateral, generally cash or U.S. government or agency securities. The need to post collateral under these transactions is generally based on marked to market valuations in excess of contractual thresholds. The fair market values of our pledged securities totaled \$1.7 million as of March 31, 2006 and \$1.8 million as of December 31, 2005.

Recent Accounting Pronouncements

In February 2006, the FASB issued FAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (FAS 155) which amends FAS 133 and FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), and addresses issues raised in FAS 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. The primary objectives of FAS 155 are: (i) with respect to FAS 133, to address the accounting for beneficial interests in securitized financial assets and (ii) with respect to FAS 140, eliminate a restriction on the passive derivative instruments that a qualifying special purpose entity may hold. FAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the implications of FAS 155 on its financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

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

Financial instruments that may be adversely affected by changes in interest rates consist primarily of investment securities. The primary objective in managing our investment portfolio is generation of an optimal level of after-tax investment income while preserving capital and maintaining adequate liquidity. Investment strategies are based on many factors, including our tax position, fluctuation in interest rates, regulatory and rating agency criteria and other market factors.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Assured Guaranty Ltd.'s management, with the participation of Assured Guaranty Ltd.'s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Assured Guaranty Ltd.'s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, Assured Guaranty Ltd.'s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, Assured Guaranty Ltd.'s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by Assured Guaranty Ltd. (including its consolidated subsidiaries) in the reports that it files or submits under the Exchange Act.

PART II OTHER INFORMATION**Item 1 Legal Proceedings**

Lawsuits arise in the ordinary course of the Company's business. It is the opinion of the Company's management, based upon the information available, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the Company's financial position, results of operations or liquidity, although an adverse resolution of a number of these items could have a material adverse effect on the Company's results of operations or liquidity in a particular quarter or fiscal year.

On April 10, 2006, the Assured Guaranty Ltd.'s wholly owned subsidiary, AGRO, and a number of other parties, completed a settlement with JP Morgan Chase & Co. and certain of its related entities and affiliated persons, all of which were among the defendants in the *In re: National Century Financial Enterprises Inc. Investment Litigation* now pending in the United States District Court for the Southern District of Ohio - Eastern District. AGRO received approximately \$8.0 million (pre-tax) in April 2006 from the settlement. AGRO originally paid claims in 1999 of approximately \$41.7 million (pre-tax) related to National Century Financial Enterprises Inc. To date, including the settlement described above, the Company has recovered \$14.5 million (pre-tax). This is a partial settlement of the litigation, and the litigation will continue against other parties.

In April 2005, AGC received a Notice of Order to Preserve (Order) from the Office of the Commissioner of Insurance, State of Georgia (Commissioner). The Order was directed to ACE Limited, and all affiliates and requires the preservation of documents and other items related to finite insurance and a broad group of other insurance and reinsurance agreements. Also in April, AGC, and numerous other insurers, received a subpoena from the Commissioner related to the initial phase of the Commissioner's investigation into finite-risk transactions. The subpoena requests information on AGC's assumed and ceded reinsurance contracts in force during 2004. AGC is cooperating with the Commissioner.

In the ordinary course of their respective businesses, certain of our subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods. The amounts, if any, the Company will recover in these proceedings are uncertain, although recoveries in any one or more of these proceedings during any quarter or fiscal year could be material to the Company's results of operations in that particular quarter or fiscal year.

Item 1A Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**Issuer's Purchases of Equity Securities**

The following table reflects purchases made by the Company during the three months ended March 31, 2006. All shares repurchased were for the 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 Number of Shares Purchased as Part of Publicly Announced Program | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|--------------------------|--------------------------------------|----------------------------------|--|--|
| January 1 - January 31 | | | | |
| February 1 - February 28 | 11,261 | \$ 26.12 | | |
| March 1 - March 31 | 20,177 | \$ 25.75 | | |
| Total | 31,438 | \$ 25.88 | | \$ 9 |

Item 3 is omitted either because it is inapplicable or because the answer to such question is negative.

Item 4 - Submission of Matters to a Vote of Security Holders

At the Annual General Meeting held on May 5, 2006, the following matters were submitted to, and approved by, shareholders of the Company:

A.01 Election of Robin Monro-Davies as a Class I Director for a term expiring in 2008:

For: 64,391,195

Withheld: 14,685

A.02 Election of Michael T. O Kane as a Class I Director for a term expiring in 2008:

For: 64,400,605

Withheld: 5,275

A.03 Election of Stephen A. Cozen as a Class II Director for a term expiring in 2009:

For: 64,394,295

Withheld: 11,585

A.04. Election of John G. Heimann as a Class II Director for a term expiring in 2009:

For: 64,309,232

Withheld: 96,648

A.05. Election of Donald H. Layton as a Class II Director for a term expiring in 2009:

For: 64,389,145

Withheld: 16,735

A.06. Election of Walter A. Scott as a Class II Director for a term expiring in 2009:

For: 63,259,384

Withheld: 1,146,496

B. Ratification of selection of PricewaterhouseCoopers LLP

For: 64,437,543

Against: 100

Abstain: 19,110

C. Subsidiary Matters

C(a)(i). AG Re Directors

(1) Howard Albert

For: 63,037,431

Withheld: 1,274,448

(2) Robert Bailenson

For: 63,037,431

Withheld: 1,274,448

(3) Dominic J. Frederico

For: 63,037,431

Withheld: 1,274,448

(4) James M. Michener

For: 63,037,431

Withheld: 1,274,448

(5) Robert B. Mills

For: 63,037,431

Withheld: 1,274,448

(6) David Penchoff

For: 63,037,431

Withheld: 1,274,448

(7) Andrew Pickering

For: 63,037,431

Withheld: 1,274,448

C(a)(ii). AG Re Auditors

For: 63,547,079

Against: 764,800

Abstain: 144,874

C(b)(i). AGL Barbados Directors

(1) James M. Michener

For: 63,541,004

Withheld: 770,875

(2) Robert B. Mills

For: 63,541,004

Withheld: 770,875

(3) Michael J. Schozer

For: 63,541,004

Withheld: 770,875

(4) Kenneth Thomson

For: 63,541,004

Withheld: 770,875

(5) Robert Worme

For: 63,541,004

Withheld: 770,875

C(b)(ii). AGL Barbados Auditors

For: 63,553,079

Against: 758,800

Abstain: 144,874

C(b)(iii). AGL Barbados Approval of Financial Statements

For: 62,879,621

Against: 758,800

Abstain: 818,332

C(b)(iv). AGL Barbados Approval of the dissolution of AGL Barbados and any and all actions associated with such dissolution, including authorizing the directors to sign a Statement of Intent to Dissolve and Articles of Dissolution, and the distribution and disposition of the assets of AGL Barbados

For: 62,887,870

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Against: 48,700

Abstain: 35,322

No Vote: 1,484,761

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Item 5 Other Information

For purposes of Section 162(m) of the Internal Revenue Code, on February 1, 2006, the Compensation Committee of the Board of Directors approved objective performance goals for 2006 under the Long-Term Incentive Plan of net income, as adjusted. After completion of the applicable performance period, the Compensation Committee will determine the extent to which the performance goals have been achieved and the amounts to be paid under the Long-Term Incentive Plan.

Item 6 - Exhibits

See Exhibit Index for a list of exhibits filed with this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the under signed thereunto duly authorized.

Assured Guaranty Ltd.(Registrant)

Dated: May 10, 2006

By:

/S/ Robert B. Mills
Robert B. Mills
Chief Financial Officer (Principal Financial and
Accounting Officer and Duly Authorized Officer)

EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|--|
| 10.1 | Five Year Cliff Vest Restricted Stock Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan* |
| 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. s Consolidated Unaudited Financial Statements as of March 31, 2006 and December 31, 2005 and for the Three Months Ended March 31, 2006 and 2005 |

* Management contract or compensatory plan