UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2009

OR

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

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(address of principal executive 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 x NO o

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

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

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

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

The number of registrant s Common Shares ($0.01 par value) outstanding as of May 1, 2009 was 90,990,867.

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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, 2009	December 31, 2008
Assets		
Fixed maturity securities, at fair value (amortized cost: $3,172,426 in 2009 and $3,162,308 in 2008)	$ 3,176,178	$ 3,154,137
Short-term investments, at cost which approximates fair value	616,834	477,197
Total investments	**3,793,012**	**3,631,334**
Cash and cash equivalents	19,328	12,305
Accrued investment income	34,310	32,846
Deferred acquisition costs	382,525	288,616
Prepaid reinsurance premiums	23,655	18,856
Reinsurance recoverable on ceded losses	7,763	6,528
Premiums receivable	748,414	15,743
Goodwill	85,417	85,417
Credit derivative assets	149,798	146,959
Deferred tax asset	117,560	129,118
Current income taxes receivable		21,427
Salvage recoverable	120,515	80,207
Committed capital securities, at fair value	70,728	51,062
Other assets	35,303	35,289
Total assets	**$ 5,588,328**	**$ 4,555,707**
Liabilities and shareholders equity		
Liabilities		
Unearned premium reserves	$ 2,153,312	$ 1,233,714
Reserves for losses and loss adjustment expenses	222,555	196,798
Profit commissions payable	7,751	8,584
Reinsurance balances payable	22,673	17,957
Current income taxes payable	4,578	
Funds held by Company under reinsurance contracts	30,962	30,683
Credit derivative liabilities	706,768	733,766
Senior Notes	197,452	197,443
Series A Enhanced Junior Subordinated Debentures	149,774	149,767
Other liabilities	66,910	60,773
Total liabilities	**3,562,735**	**2,629,485**
Commitments and contingencies		
Shareholders equity		
Common stock ($0.01 par value, 500,000,000 shares authorized; 90,122,385 and 90,955,703 shares issued and outstanding in 2009 and 2008)	901	910
Additional paid-in capital	1,284,093	1,284,370
Retained earnings	738,831	638,055
Accumulated other comprehensive income	1,768	2,887
Total shareholders equity	**2,025,593**	**1,926,222**
Total liabilities and shareholders equity	**$ 5,588,328**	**$ 4,555,707**

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

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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, 2009	Three Months Ended March 31, 2008
Revenues		
Net earned premiums	$ 148,446	$ 46,833
Net investment income	43,601	36,574
Net realized investment (losses) gains	(17,110)	627
Change in fair value of credit derivatives		
Realized gains and other settlements on credit derivatives	20,579	27,617
Unrealized gains (losses) on credit derivatives	26,982	(259,621)
Net change in fair value of credit derivatives	47,561	(232,004)
Other income	20,568	8,536
Total revenues	**243,066**	**(139,434)**
Expenses		
Loss and loss adjustment expenses	79,754	55,138
Profit commission expense	255	1,180
Acquisition costs	23,421	11,883
Other operating expenses	32,318	28,638
Interest expense	5,821	5,821
Other expense	1,400	735
Total expenses	**142,969**	**103,395**
Income (loss) before provision (benefit) for income taxes	100,097	(242,829)
Provision (benefit) for income taxes		
Current	11,575	10,113
Deferred	3,033	(83,733)
Total provision (benefit) for income taxes	**14,608**	**(73,620)**
Net income (loss)	**85,489**	**(169,209)**
Other comprehensive loss, net of taxes		
Unrealized holding losses on fixed maturity securities arising during the period	(9,702)	(4,897)
Reclassification adjustment for realized losses (gains) included in net income (loss)	17,075	(394)
Change in net unrealized gains on fixed maturity securities	7,373	(5,291)
Change in cumulative translation adjustment	(8,387)	357
Change in cash flow hedge	(105)	(105)
Other comprehensive loss, net of taxes	(1,119)	(5,039)
Comprehensive income (loss)	**$ 84,370**	**$ (174,248)**
Earnings per share(1):		
Basic	$ 0.94	$ (2.09)

Diluted	$	0.93	$	(2.09)
Dividends per share	$	0.045	$	0.045

(1) Effective January 1, 2009, the Company adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. See Note 12 for more information.

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

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Assured Guaranty Ltd.
Consolidated Statements of Shareholders Equity
For the Three Months Ended March 31, 2009
(in thousands of U.S. dollars except per share amounts)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
Balance, December 31, 2008	**$ 910**	**$ 1,284,370**	**$ 638,055**	**$ 2,887**	**$ 1,926,222**
Cumulative effect of accounting change - Adoption of FAS 163 effective January 1, 2009			19,443		19,443
Net income			85,489		85,489
Dividends ($0.045 per share)			(4,122)		(4,122)
Dividends on restricted stock units		34	(34)		
Common stock repurchases	(10)	(3,666)			(3,676)
Shares cancelled to pay withholding taxes	(1)	(941)			(942)
Share-based compensation and other	2	4,296			4,298
Change in cash flow hedge, net of tax of $(56)				(105)	(105)
Change in cumulative translation adjustment				(8,387)	(8,387)
Unrealized gain on fixed maturity securities, net of tax of $4,550				7,373	7,373
Balance, March 31, 2009	**$ 901**	**$ 1,284,093**	**$ 738,831**	**$ 1,768**	**$ 2,025,593**

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

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

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating activities		
Net income (loss)	$ 85,489	$ (169,209)
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Non-cash interest and operating expenses	4,795	7,612
Net amortization of (discount) premium on fixed maturity securities	(1,819)	1,178
Accretion of discount on premium receivable	(5,287)	
Provision (benefit) for deferred income taxes	3,033	(83,733)
Net realized investment losses (gains)	17,110	(627)
Unrealized (gains) losses on credit derivatives	(26,982)	259,621
Fair value gain on committed capital securities	(19,666)	(8,512)
Change in deferred acquisition costs	7,927	(13,376)
Change in accrued investment income	(1,464)	(2,383)
Change in premiums receivable	(5,946)	3,912
Change in prepaid reinsurance premiums	1,826	(4,003)
Change in unearned premium reserves	91,945	126,989
Change in reserves for losses and loss adjustment expenses, net	13,870	32,108
Change in profit commissions payable	(833)	(10,963)
Change in funds held by Company under reinsurance contracts	279	3,599
Change in current income taxes receivable	26,005	9,670
Other changes in credit derivative assets and liabilities, net	(2,856)	4,372
Other	(20,409)	(7,210)
Net cash flows provided by operating activities	**167,017**	**149,045**
Investing activities		
Fixed maturity securities:		
Purchases	(289,219)	(326,204)
Sales	274,260	118,392
Maturities	3,500	3,250
(Purchases) sales of short-term investments, net	(139,622)	62,142
Net cash flows used in investing activities	**(151,081)**	**(142,420)**
Financing activities		
Dividends paid	(4,122)	(3,647)
Repurchases of common stock	(3,676)	
Share activity under option and incentive plans	(942)	(2,262)
Equity offering costs		(429)
Net cash flows used in financing activities	**(8,740)**	**(6,338)**
Effect of exchange rate changes	(173)	43
Increase in cash and cash equivalents	7,023	330
Cash and cash equivalents at beginning of period	12,305	8,048

Cash and cash equivalents at end of period	**$**	**19,328**	**$**	**8,378**
Supplementary cash flow information				
Cash (received)/paid during the period for:				
Income taxes	$	(14,514)	$	500
Interest	$		$	

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

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Assured Guaranty Ltd.
Notes to Consolidated Financial Statements

March 31, 2009

(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. The Company issues policies in both financial guaranty and credit derivative form. 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 14.

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 unified process and procedure 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 its 2004 initial public offering (IPO). The results from these lines of business make up the Company s Other segment discussed in Note 14.

The Company s subsidiaries have been assigned the following insurance financial strength ratings as of the date of this filing. These ratings are subject to continuous review.

	Moody s	S&P	Fitch
Assured Guaranty Corp.	Aa2(Excellent)	AAA(Extremely Strong)	AA(Very Strong)
Assured Guaranty Re Ltd.	Aa3(Excellent)	AA(Very Strong)	AA-(Very Strong)
Assured Guaranty Re Overseas Ltd.	Aa3(Excellent)	AA(Very Strong)	AA-(Very Strong)
Assured Guaranty Mortgage Insurance Company	Aa3(Excellent)	AA(Very Strong)	AA-(Very Strong)
Assured Guaranty (UK) Ltd	Aa2(Excellent)	AAA(Extremely Strong)	AA(Very Strong)

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On May 4, 2009, Fitch Ratings Inc. (Fitch) downgraded the debt and insurer financial strength ratings of Assured Guaranty Ltd. and its subsidiaries. Fitch s insurer financial strength ratings for Assured Guaranty Corp. and Assured Guaranty (UK) Ltd., the Company s principal financial guaranty direct subsidiaries, are now AA (rating watch evolving), down from AAA (stable) while the insurer financial strength ratings for Assured Guaranty Re Ltd. (AG Re), the Company s principal financial guaranty reinsurance company, are rated AA- (rating watch evolving), down from AA (stable). Fitch s ratings on Assured Guaranty Ltd. s $200 million of 7.0% senior notes due 2034 are now A, down from A+ and their ratings on Assured Guaranty Ltd s $150 million series A enhanced junior subordinated debentures are now rated A-, down from A.

Acquisition of Financial Security Assurance Holdings Ltd.

On November 14, 2008, Assured Guaranty Ltd. announced that it had entered into a definitive agreement (the Purchase Agreement) with Dexia Holdings, Inc. (Dexia) to purchase Financial Security Assurance Holdings Ltd. (FSAH) and, indirectly, all of its subsidiaries, including the financial guaranty insurance company, Financial Security Assurance, Inc. The definitive agreement provides that the Company will be indemnified against exposure to FSAH s Financial Products segment, which includes its guaranteed investment contract business. Pursuant to the Purchase Agreement, the Company agreed to buy 33,296,733 issued and outstanding shares of common stock of FSAH, representing as of the date thereof approximately 99.8524% of the issued and outstanding shares of common stock of FSAH. The remaining shares of FSAH are currently held by current or former directors of FSAH. Assured expects that it will acquire the remaining shares of FSAH common stock concurrent with the closing of the acquisition of shares of FSAH common stock from Dexia or shortly thereafter at the same price paid to Dexia. The Company has received all required shareholder and regulatory approvals and expects to close the FSAH acquisition in the second quarter 2009 upon the completion of various closing conditions and if the rating agencies complete their transaction reviews, including their evaluation of the separation of FSA s Financial Products segment, which the Company is not acquiring.

The purchase price is $722 million (based upon the closing price of the Company s common shares on the NYSE on November 13, 2008 of $8.10), consisting of $361 million in cash and up to 44,567,901 of the Company s common shares. If, prior to the closing date under the stock purchase agreement, the Company issues new common shares (other than pursuant to an employee benefit plan) or other securities that are convertible into or exchangeable for or otherwise linked to the Company s common shares at a purchase price per share of less than $8.10, the Company has agreed to issue to Dexia on the closing date an additional number of the Company s common shares with an aggregate value as of the closing date (measured based on the average of the volume weighted average price per share for each day in the 20 NYSE trading day period ending three business days prior to the closing date) representing the amount of dilution as a result of such issuance. The amount of dilution is defined to mean (x) the number of the Company s common shares issued (or that upon conversion or exchange would be issuable) as a result of the dilutive issuance, multiplied by (y) the positive difference if any between $8.10 and the purchase (or reference, implied, conversion, exchange or comparable) price per share received by the Company in the dilutive issuance, multiplied by (z) the percentage of the issued and outstanding share capital of the Company represented by the Company common shares to be received by Dexia under the stock purchase agreement (without taking into account any additional Assured Guaranty Ltd. s common shares issued or issuable as a result of the anti-dilution provision).

Under the Purchase Agreement, the Company may elect to pay $8.10 per share in cash in lieu of up to 22,283,951 of the Company s common shares that it would otherwise deliver as part of the purchase price.

The Company expects to finance the cash portion of the acquisition with the proceeds of a public equity offering. The Company has received a backstop commitment (the WLR Backstop Commitment) from the WLR Funds, a related party, to fund the cash portion of the purchase price with the purchase of newly issued common shares. The Company entered into the WLR Backstop Commitment on November 13, 2008 with the WLR Funds. The WLR Backstop Commitment amended the Investment Agreement between the Company and the WLR Funds and provided to the Company the option to cause the WLR Funds to purchase from Assured Guaranty Ltd. or Assured Guaranty US Holdings Inc. a number of the Company s common shares equal to the quotient of (i) the aggregate dollar amount not to exceed $361 million specified by the Company divided by (ii) the volume weighted average price of the Company s common share on the NYSE for the 20 NYSE trading days ending with the last NYSE trading day immediately preceding the date of the closing under the stock purchase agreement, with a floor of $6.00 and a cap of $8.50.

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The WLR Funds have no obligation to purchase these common shares pursuant to the WLR Backstop Commitment until the closing under the stock purchase agreement occurs. The Company may use the proceeds from the sale of the Company s common shares pursuant to the WLR Backstop Commitment solely to pay a portion of the purchase price under the stock purchase agreement. The WLR Funds obligations under the WLR Backstop Commitment have been secured by letters of credit issued for the benefit of the Company by Bank of America, N.A. and RBS Citizens Bank, N.A., each in the amount of $180.5 million.

The Company has paid the WLR Funds a nonrefundable commitment fee of $10,830,000 in connection with the option granted by the WLR Backstop Commitment and has agreed to pay the WLR Funds expenses in connection with the transactions contemplated thereby. The Company reimbursed the WLR Funds for the $4.1 million cost of obtaining the letters of credit referred to above.

2. Significant Accounting Policies

Basis of Presentation

The 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, which are of a normal recurring nature, 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, 2009 (First Quarter 2009) and the three-month period ended March 31, 2008 (First Quarter 2008). Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for a full year. Certain prior year items have been reclassified to conform to the current year 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, 2008, filed with the Securities and Exchange Commission. All intercompany accounts and transactions have been eliminated.

Certain of the Company s subsidiaries are subject to U.S. and U.K. 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 credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pre-tax income for the full year of 2009. A discrete calculation of the provision is calculated for each interim period.

The volatility and disruption in the global financial markets have reached unprecedented levels. The availability and cost of credit has been materially affected. These factors, combined with depressed home prices and increasing foreclosures, falling equity market values, rising unemployment, declining business and consumer confidence and the risk of increased inflation, have precipitated an economic slowdown and fears of a severe recession. The conditions may adversely affect the Company s future profitability, financial position, investment portfolio, cash flow, statutory capital, financial strength ratings and stock price. Additionally, future legislative, regulatory or judicial changes in the jurisdictions regulating the Company may adversely affect its ability to pursue its current mix of business, materially impacting its financial results.

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Adoption of FAS 163

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 163, Accounting for Financial Guarantee Insurance Contracts (FAS 163). FAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. FAS 163 also clarifies the methodology to be used for financial guaranty premium revenue recognition and claim liability measurement, as well as requiring expanded disclosures about the insurance enterprise s risk management activities. The provisions of FAS 163 related to premium revenue recognition and claim liability measurement are effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. Earlier application of these provisions was not permitted. The expanded risk management activity disclosure provisions of FAS 163 were effective for the third quarter of 2008 and are included in Note 7 of these unaudited interim consolidated financial statements. FAS 163 will be applied to all existing and future financial guaranty insurance contracts written by the Company.

FAS 163 mandates the accounting changes prescribed by the statement be recognized by the Company as a cumulative effect adjustment to retained earnings as of January 1, 2009. The impact of adopting FAS 163 on the Company s balance sheet was as follows:

(dollar in thousands)		**December 31, 2008 As reported**		**Transition Adjustment**		**January 1, 2009 Per FAS 163**
ASSETS:						
Deferred acquisition costs	$	288,616	$	101,836	$	390,452
Prepaid reinsurance premiums		18,856		6,625		25,481
Reinsurance recoverable on ceded losses		6,528		(1,184)		5,344
Premiums receivable		15,743		721,438		737,181
Deferred tax asset		129,118		(7,743)		121,375
Salvage recoverable		80,207		6,917		87,124
Total assets		4,555,707		827,889		5,383,596
LIABILITIES AND SHAREHOLDERS EQUITY:						
Unearned premium reserves	$	1,233,714	$	827,653	$	2,061,367
Reserves for losses and loss adjustment expenses		196,798		(25,379)		171,419
Reinsurance balances payable		17,957		6,172		24,129
Total liabilities		2,629,485		808,446		3,437,931
Retained earnings		638,055		19,443		657,498
Total shareholders equity		1,926,222		19,443		1,945,665
Total liabilities and shareholders equity		4,555,707		827,889		5,383,596

A summary of the effects of FAS 163 on the balance sheet amounts above is as follows:

- Deferred acquisition costs increased to reflect commissions on future installment premiums related to assumed reinsurance policies.

- Premium receivable increased to reflect the recording of the net present value of future installment premiums discounted at a risk-free rate. Reinsurance balances payable increased correspondingly for those amounts ceded to reinsurers.

- Unearned premium reserves increased to reflect the recording of the net present value of future installment premiums discounted at a risk-free rate and the change in the premium earnings methodology to the effective yield method prescribed by FAS 163. Prepaid reinsurance premiums increased correspondingly for those amounts ceded to reinsurers.

- Reserves for losses and loss adjustment expenses decreased to reflect the release of the Company s portfolio reserves on fundamentally sound credits. This was partially offset by an increase in case reserves, which are now calculated based on probability weighted cash flows discounted at a risk free rate instead of based on a single case best estimate reserve discounted based on the after-tax investment yield of the Company s investment portfolio (6%). Reinsurance recoverable on ceded losses decreased correspondingly. Salvage recoverable increased to reflect the change in discount

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rates.

- Deferred tax asset decreased to reflect the deferred tax effect of the above items.
- Retained earnings as of January 1, 2009 increased to reflect the net effect of the above adjustments.

Premium Revenue Recognition

Premiums are received either upfront or in installments.

Upon Adoption of FAS 163

The Company recognizes a liability for the unearned premium revenue at the inception of a financial guarantee contract equal to the present value of the premiums due or expected to be collected over the period of the contract. If the premium is a single premium received at the inception of the financial guarantee contract, the Company measures the unearned premium revenue as the amount received. The period of the contract is the expected period of risk that generally equates to the contract period. However, in some instances, the expected period of risk is significantly shorter than the full contract period due to expected prepayments. In those instances where the financial guarantee contract insures a homogeneous pool of assets that are contractually prepayable and where those prepayments are probable and the timing and amount of prepayments can be reasonably estimated the Company uses the expected period of risk to recognize premium revenues. The Company adjusts prepayment assumptions when those assumptions change and recognizes a prospective change in premium revenues as a result. The adjustment to the unearned premium revenue is equal the adjustment to the premium receivable with no effect on earnings at the time of the adjustment.

The Company recognizes the premium from a financial guarantee insurance contract as revenue over the period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease in the unearned premium revenue occurs. The amount of insurance protection provided is a function of the insured principal amount outstanding. Therefore, the proportionate share of premium revenue to be recognized in a given reporting period is a constant rate calculated based on the relationship between the insured principal amount outstanding in a given reporting period compared with the sum of each of the insured principal amounts outstanding for all periods. When the issuer of an insured financial obligation retires the insured financial obligation before its maturity and replaces it with a new financial obligation, referred to as a refunding, the financial guarantee insurance contract on the retired financial obligation is extinguished. The Company immediately recognizes any nonrefundable unearned premium revenue related to that contract as premium revenue and any associated acquisition costs previously deferred as an expense.

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The following table provides information for financial guaranty insurance contracts where premiums are received on an installment basis as of and for the three months ended March 31, 2009 (dollars in thousands):

Premiums receivable, net of ceding commissions (end of period)(1)	$	737,925
Unearned premium reserves (end of period)(2)	$	957,804
Accretion of discount on premium receivable	$	5,287
Weighted-average risk-free rate to discount premiums		2.7%
Weighted-average period of premiums receivable (in years)		10.4

(1) Includes $96.5 million of ceding commissions due on future installment premium receivable.

(2) Includes unearned premium related to the upfront portion of premiums received on bi-furcated deals.

The premiums receivable expected to be collected are:

(dollar in thousands)		
2009 (April 1 June 30)	$	27,976
2009 (July 1 September 30)		16,119
2009 (October 1 December 31)		17,245
2010 (January 1 March 31)		17,409
2010 (April 1 December 31)		41,949
2011		49,497
2012		47,449
2013		40,688
2014 - 2018		161,884
2019 - 2023		116,868
2024 - 2028		91,444
2029 2033		71,454
2034 2038		31,790
2039 2043		12,297
2044 2048		3,870
2049 2053		446
2053 - 2056		29
Total premiums receivable, net of ceding commissions	$	748,414

The following table provides a reconciliation of the beginning and ending balances of premium receivable:

(dollar in thousands)		
Balance as of January 1, 2009	$	737,181
Add: premiums written - net		234,796
Add: accretion of premium receivable discount		5,287
Less: premium payments received		228,850
Balance as of March 31, 2009	$	748,414

The accretion of premium receivable discount is included in earned premium in the Company s statement of operations. The above amounts are presented net of applicable ceding commissions.

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The future expected premium revenue that the Company expects to recognize are:

(dollar in thousands)		
2009 (April 1 June 30)	$	42,034
2009 (July 1 September 30)		46,771
2009 (October 1 December 31)		45,668
2010 (January 1 March 31)		42,529
2010 (April 1 December 31)		125,647
2011		154,946
2012		141,417
2013		127,868
2014 - 2018		512,825
2019 - 2023		358,559
2024 - 2028		251,200
After 2028		303,848
Total future expected premium revenue	$	2,153,312

In the Company s reinsurance businesses, the Company estimates 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 the Company s ceding companies report premium data anywhere from 30 to 90 days after the end of the relevant period. Written premiums reported in the Company s statement of operations are based upon reports received from ceding companies supplemented by the Company s own estimates of premium for which ceding company reports have not yet been received. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined.

Prior to Adoption of FAS 163

Upfront premiums were earned in proportion to the expiration of the amount at risk. Each installment premium was earned ratably over its installment period, generally one year or less. Premium earnings under both the upfront and installment revenue recognition methods were based upon and were in proportion to the principal amount guaranteed and therefore resulted in higher premium earnings during periods where guaranteed principal was higher. For insured bonds for which the par value outstanding was declining during the insurance period, upfront premium earnings were greater in the earlier periods thus matching revenue recognition with the underlying risk. The premiums were allocated in accordance with the principal amortization schedule of the related bond issue and were earned ratably over the amortization period. When an insured issue was retired early, was called by the issuer, or was in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, the remaining unearned premium reserves were earned at that time. Unearned premium reserves represented the portion of premiums written that were applicable to the unexpired amount at risk of insured bonds.

Deferred Acquisition Costs

Acquisition costs incurred, other than those associated with financial guarantees written in credit derivative form, that vary with and are directly related to the production of new business are deferred in proportion to written premium 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. Management uses its judgment in determining what types of costs should be deferred, as well as what percentage of these costs should be deferred. The Company annually conducts 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 the Company cedes to other reinsurers reduce acquisition costs. Anticipated losses, loss adjustment expenses 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 above in the Premium Revenue Recognition section, the remaining related deferred acquisition cost is expensed at that time. Ceding commissions, calculated at their contractually defined

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rate, associated with future installment premiums on assumed and ceded reinsurance business were recorded in deferred acquisition costs upon the adoption of FAS 163 with a corresponding offset to premium receivable.

Reserves for Losses and Loss Adjustment Expenses

The Company s financial guarantees written in credit derivative form have substantially the same terms and conditions as its financial guaranty contracts written in insurance form. Under GAAP, however, the former are subject to derivative accounting rules and the latter are subject to insurance accounting rules.

Financial Guaranty Contracts Upon Adoption of FAS 163

The Company recognizes a reserve for losses and loss adjustment expenses on a financial guarantee insurance contract when the Company expects that a claim loss will exceed the unearned premium revenue for that contract based on the present value of expected net cash outflows to be paid under the insurance contract. The unearned premium revenue represents the insurance enterprise s stand-ready obligation under a financial guarantee insurance contract at initial recognition. Subsequently, if the likelihood of a default (insured event) increases so that the present value of the expected net cash outflows expected to be paid under the insurance contract exceeds the unearned premium revenue, the Company recognizes a reserve for losses and loss adjustment expenses in addition to the unearned premium revenue.

A reserve for losses is equal to the present value of expected net cash outflows to be paid under the insurance contract discounted using a current risk-free rate. That current risk-free rate is based on the remaining period (contract or expected, as applicable) of the insurance contract. Expected net cash outflows (cash outflows, net of potential recoveries, expected to be paid to the holder of the insured financial obligation, excluding reinsurance) are probability-weighted cash flows that reflect the likelihood of all possible outcomes. The Company estimates the expected net cash outflows using the internal assumptions about the likelihood of all possible outcomes based on all information available. Those assumptions consider all relevant facts and circumstances and are consistent with the information tracked and monitored through the Company s risk-management activities.

The Company updates the discount rate each reporting period and revises expected net cash outflows when increases (or decreases) in the likelihood of a default (insured event) and potential recoveries occur. The discount amount is accreted on the reserve for losses and loss adjustment expenses through earnings in incurred loss and loss adjustment expenses (recoveries). Revisions to a reserve for loss and loss adjustment expenses in periods after initial recognition are recognized as incurred loss and loss adjustment expenses (recoveries) in the period of the change.

Financial Guaranty Contracts Prior to Adoption of FAS 163

Reserves for losses for non-derivative transactions in the Company s financial guaranty direct and financial guaranty assumed reinsurance included case reserves and portfolio reserves. Case reserves were established when there was significant credit deterioration on specific insured obligations and the obligations were in default or default was probable, not necessarily upon non-payment of principal or interest by an insured.

Case reserves represented the present value of expected future loss payments and loss adjustment expenses, net of estimated recoveries, but before considering ceded reinsurance. This reserving method was 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 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, were discounted at the taxable equivalent yield on the Company s investment portfolio, which was approximately 6%, during 2008.

The Company recorded portfolio reserves in its financial guaranty direct and financial guaranty assumed reinsurance business. Portfolio reserves were established with respect to the portion of the Company s business for which case reserves were not established.

Portfolio reserves were not established based on a specific event, rather they are calculated by aggregating the portfolio reserve calculated for each individual transaction. Individual transaction reserves were calculated on a

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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 was defined as the frequency of loss multiplied by the severity of loss, where the frequency was defined as the probability of default for each individual issue. The earning factor was inception to date earned premium divided by the estimated ultimate written premium for each transaction. The probability of default was estimated from rating agency data and was based on the transaction s credit rating, industry sector and time until maturity. The severity was defined as the complement of recovery/salvage rates gathered by the rating agencies of defaulting issues and was based on the industry sector.

Portfolio reserves were recorded gross of reinsurance. The Company did not cede any amounts under these reinsurance contracts, as the Company s recorded portfolio reserves did not exceed the Company s contractual retentions, required by said contracts.

The Company recorded an incurred loss that was reflected in the statement of operations upon the establishment of portfolio reserves. When the Company initially recorded a case reserve, the Company reclassified 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 was recorded as a charge in the Company s statement of operations. Any subsequent change in portfolio reserves or the initial case reserves were recorded quarterly as a charge or credit in the Company s statement of operations in the period such estimates changed.

Mortgage Guaranty and Other Lines of Business

Mortgage guaranty and other lines of business are not in the scope of FAS 163. Reserves for losses and loss adjustment expenses in the Company s mortgage guaranty line of business include case reserves and portfolio reserves. 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 loss adjustment expenses (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.

The Company also records portfolio reserves for mortgage guaranty line of business in a manner consistent with its financial guaranty business prior to the adoption of FAS 163. While other mortgage guaranty insurance companies do not record portfolio reserves, rather just case and IBNR reserves, the Company records portfolio reserves because the Company writes business on an excess of loss basis, while other industry participants write quota share or first layer loss business. The Company manages and underwrites this business in the same manner as its financial guaranty insurance and reinsurance business because they have similar characteristics as insured obligations of mortgage backed securities.

The Company also records IBNR reserves for its other line of business. IBNR is an estimate of losses for which the insured event has occurred but the claim has not yet been reported to the Company. In establishing IBNR, the Company uses traditional actuarial methods to estimate the reporting lag of such claims based on historical experience, claim reviews and information reported by ceding companies. The Company records IBNR for trade credit reinsurance within its other segment, which is 100% reinsured. The other segment represents lines of business that the Company exited or sold as part of the Company s IPO.

Due to the inherent uncertainties of estimating loss and LAE reserves, actual experience may differ from the estimates reflected in the Company s consolidated financial statements, and the differences may be material.

Reinsurance

In the ordinary course of business, the Company s insurance subsidiaries assume and retrocede business with other insurance and reinsurance companies. These agreements provide greater diversification of business and may minimize the net potential loss from large risks. Retrocessional contracts do not relieve the Company of its

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obligation to the reinsured. Reinsurance recoverable on ceded losses includes balances due from reinsurance companies for paid and unpaid losses and LAE that will be recovered from reinsurers, based on contracts in force, and is presented net of any provision for estimated uncollectible reinsurance. Any change in the provision for uncollectible reinsurance is included in loss and loss adjustment expenses. Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers relating to the unexpired terms of the reinsurance contracts in force.

Certain of the Company s assumed and ceded reinsurance contracts are funds held arrangements. In a funds held arrangement, the ceding company retains the premiums instead of paying them to the reinsurer and losses are offset against these funds in an experience account. Because the reinsurer is not in receipt of the funds, the reinsurer earns interest on the experience account balance at a predetermined credited rate of interest. The Company generally earns interest at fixed rates of between 4% and 6% on its assumed funds held arrangements and generally pays interest at fixed rates of between 4% and 6% on its ceded funds held arrangements. The interest earned or credited on funds held arrangements is included in net investment income. In addition, interest on funds held arrangements will continue to be earned or credited until the experience account is fully depleted, which can extend many years beyond the expiration of the coverage period.

Salvage Recoverable

When the Company becomes entitled to the underlying collateral (generally a future stream of cash flows or pool assets) of an insured credit under salvage and subrogation rights as a result of a claim payment or estimates recoveries from disputed claim payments on contractual grounds, it reduces the corresponding loss reserve for a particular financial guaranty insurance policy for the estimated salvage and subrogation, in accordance with FAS No. 60, Accounting and Reporting by Insurance Enterprises . If the expected salvage and subrogation exceeds the estimated loss reserve for a policy, such amounts are recorded as a salvage recoverable asset in the Company s balance sheets.

3. Recent Accounting Pronouncements

In December 2007, the FASB issued FAS No. 141 (revised), Business Combinations (FAS 141R). FAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. FAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. FAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim statements within those fiscal years. Early adoption is not permitted. Since FAS 141R applies prospectively to business combinations whose acquisition date is subsequent to the statement s adoption. The Company is applying the provisions of FAS 141R to account for its pending acquisition of FSAH. As of March 31, 2009, the Company had paid $4.6 million related to the Company s pending acquisition of FSAH that the Company expensed in the first quarter 2009 in operating expenses.

In October 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarified the application of FAS 157, Fair Value Measurements (FAS 157), in a market that is not active. FSP 157-3 was effective when issued. It did not have an impact on the Company s current results of operations or financial position.

The FASB adopted FSP FAS 133-1 and FIN 45-4, Disclosures About Credit Derivatives and Certain Guarantees (FSAP 133-1) and FAS 161, Disclosures about Derivative Instruments and Hedging Activities (FAS 161) to address concerns that current derivative disclosure requirements did not adequately address the potential adverse effects that these instruments can have on the financial performance and operations of an entity. Companies will be required to provide enhanced disclosures about their derivative activities to enable users to better understand: (1) how and why a company uses derivatives, (2) how it accounts for derivatives and related hedged items, and (3) how derivatives affect its financial statements. These should include the terms of the derivatives, collateral posting requirements and triggers, and other significant provisions that could be detrimental to earnings or liquidity. Management believes that the Company s current derivatives disclosures are in compliance with the requirements of FSP 133-1 and FAS 161.

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In April 2009, the FASB issued FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4). FSP 157-4 amends FAS 157 to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. FSP 157-4 also provides additional guidance on circumstances that may indicate that a transaction is not orderly. FSP 157-4 supersedes FSP 157-3. FSP 157-4 amends FAS 157 to require additional disclosures about fair value measurements in annual and interim reporting periods. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. Early adoption is permitted, but only for periods ending after March 15, 2009. FSP 157-4 must be applied prospectively and does not require disclosures for earlier periods presented for comparative purposes at initial adoption. The Company will adopt FSP 157-4 in its Form 10-Q for the period ended June 30, 2009. The Company is currently evaluating the impact, if any, FSP 157-4 will have on its financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1). FSP 107-1 extends the disclosure requirements of FAS No. 107, Disclosures about Fair Value of Financial Instruments, to interim financial statements of publicly traded companies. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 107-1 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 107-1 requires comparative disclosures only for periods ending after initial adoption. The Company will adopt FSP 107-1 in its Form 10-Q for the period ended June 30, 2009. The Company is currently evaluating the impact, if any, FSP 107-1 will have on its financial statements disclosures.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2). FSP 115-2 provides new guidance on the recognition and presentation of an other than temporary impairment (OTTI) for debt securities classified as available-for-sale and held-to-maturity and provides some new disclosure requirements for both debt and equity securities. FSP 115-2 mandates new disclosure requirements affect both debt and equity securities and extend the disclosure requirements (both new and existing) to interim periods. FSP 115-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. FSP 115-2 is to be applied to existing and new investments held by an entity as of the beginning of the period in which it is adopted. The Company will adopt FSP 115-2 in its Form 10-Q for the period ended June 30, 2009. The Company is currently evaluating the impact, if any, FSP 115-2 will have on its financial statements.

4. Credit Derivatives

Financial guarantees written in credit derivative form issued by the Company, principally in the form of insured credit default swap (CDS) contracts, have been deemed to meet the definition of a derivative under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), FAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) and FAS No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155). FAS 133 and FAS 149 require that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a fair value, cash flow or foreign currency hedge. FAS 155 requires companies to recognize freestanding or embedded derivatives relating to beneficial interests in securitized financial instruments. This recognition was not required prior to January 1, 2007. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Realized gains and other settlements on credit derivatives include credit derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts as well as any contractual claim losses paid and payable related to insured credit events under these contracts, ceding commissions (expense) income and realized gains or losses related to their early termination. The Company almost always holds credit derivative contracts to maturity. However, in certain circumstances such as for the downgrade of AGC or AGRe, the CDS counterparty may decide to terminate a credit derivative contract prior to maturity.

The following table disaggregates realized gains and other settlements on credit derivatives into its component

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parts for the periods ended March 31, 2009 and 2008 (dollars in thousands):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Realized gains and other settlements on credit derivatives		
Net credit derivative premiums received and receivable	$ 29,515	$ 27,822
Net credit derivative losses (paid and payable) recovered and recoverable	(9,058)	14
Ceding commissions received/receivable (paid/payable), net	122	(219)
Total realized gains and other settlements on credit derivatives	$ 20,579	$ 27,617

Unrealized gains (losses) on credit derivatives represent the adjustments for changes in fair value that are recorded in each reporting period, under FAS 133. Changes in unrealized gains and losses on credit derivatives are reflected in the consolidated statements of operations and comprehensive income in unrealized gains (losses) on credit derivatives. Cumulative unrealized losses, determined on a contract by contract basis, are reflected as either net assets or net liabilities in the Company s balance sheets. Unrealized gains and losses resulting from changes in the fair value of credit derivatives occur because of changes in interest rates, credit spreads, the credit ratings of the referenced entities and the issuing Company s own credit rating and other market factors. The unrealized gains and losses on credit derivatives will reduce to zero as the exposure approaches its maturity date, unless there is a payment default on the exposure or early termination. Changes in the fair value of the Company s credit derivative contracts do not generally reflect actual claims or credit losses, and have no impact on the Company s claims paying resources, rating agency capital or regulatory capital positions.

The Company determines fair value of its credit derivative contracts primarily through modeling that uses various inputs such as credit spreads, based on observable market indices and on recent pricing for similar contracts, and expected contractual life to derive an estimate of the value of our contracts in our principal market (see Note 5). Credit spreads capture the impact of recovery rates and performance of underlying assets, among other factors, on these contracts. The Company s pricing model takes into account not only how credit spreads on risks that it assumes affects pricing, but how the Company s own credit spread affects the pricing of its deals. If credit spreads of the underlying obligations change, the fair value of the related credit derivative changes. Market liquidity could also impact valuations of the underlying obligations.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and other market conditions at the time these fair values are determined. In addition, since each transaction has unique collateral and structure terms, the underlying change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts also reflects the change in the Company s own credit cost based on the price to purchase credit protection on AGC. During First Quarter 2009, the Company incurred net pre-tax unrealized gains on credit derivative contracts of $27.0 million. Of this amount, $2,291.5 million was due to the widening of AGC s own credit spread from1,775 basis points at December 31, 2008 to 3,847 basis points at March 31, 2009. As of March 31, 2009 the net credit liability includes a reduction in the liability of $6,439.1 million associated with the widening of AGC s credit spread to 3,847 basis points. Management believes that the widening of AGC s credit spread is due to the correlation between AGC s risk profile and that experienced currently by the broader financial markets and increased demand for credit protection against AGC as the result of its direct segment financial guarantee volume as well as the overall lack of liquidity in the CDS market. Offsetting the gain attributable to the significant increase in AGC s credit spread were declines in fixed income security market prices primarily attributable to widening spreads in certain markets as a result of the continued deterioration in credit markets and some credit rating downgrades, rather than from delinquencies or defaults on securities guaranteed by the Company. The higher credit spreads in the fixed income security market are due to the recent lack of liquidity in the high yield collateralized debt obligation and collateralized loan obligation markets as well as continuing market concerns over the most recent vintages of subprime residential mortgage backed securities and commercial mortgage backed securities.

During First Quarter 2008, the Company incurred net mark-to-market losses on credit derivative contracts of $(259.6) million, pre-tax, related to high yield and investment grade corporate collateralized loan obligations (CLOs), as well as residential and commercial mortgage backed securities exposures. The unrealized loss on credit derivatives

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resulted largely from the decline in fixed income security market prices resulting from higher credit spreads, due to the lack of liquidity in the High Yield CDO and CLO market as well as market concerns over continued recent vintages of subprime residential mortgage backed securities, rather than from credit rating downgrades, delinquencies or defaults on securities guaranteed by the Company.

The total notional amount of credit derivative exposure outstanding as of March 31, 2009 and December 31, 2008 and included in the Company s financial guaranty exposure was $73.3 billion and $75.1 billion, respectively.

The components of the Company s unrealized gain (loss) on credit derivatives for the three months ended March 31, 2009 is:

	As of March 31, 2009			First Quarter 2009	
Asset Type		**Net Par Outstanding (in billions)**	**Weighted Average Credit Rating(1)**		**Unrealized Gain (Loss) (in millions)**
Corporate collateralized loan obligations	$	26.0	AAA	$	(78.9)
Market value CDOs of corporate obligations		3.4	AAA		(7.0)
Trust preferred securities		6.0	A-		75.3
Total pooled corporate obligations		**35.4**	**AA+**		**(10.5)**
Commercial mortgage-backed securities		5.8	AAA		(31.2)
Residential mortgage-backed securities		19.6	AA-		(89.8)
Other		9.3	AA-		142.3
Total		**70.0**	**AA**		**10.8**
Reinsurance exposures written in CDS form		3.3	AA+		16.2
Grand Total	**$**	**73.3**	**AA**	**$**	**27.0**

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

Corporate collateralized loan obligations, market value CDO s, and trust preferred securities, which comprise the Company s pooled corporate exposures, include all U.S. structured finance pooled corporate obligations and international pooled corporate obligations. Commercial mortgage backed securities are comprised of commercial U.S. structured finance and commercial international mortgage backed securities. Residential mortgage backed securities are comprised of prime and subprime U.S. mortgage backed and home equity securities, international residential mortgage backed and international home equity securities. Other includes all other U.S. and international asset classes, such as commercial receivables, and international infrastructure and pooled infrastructure securities.

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

The Company s $9.3 billion exposure to Other CDS contracts is also highly diversified. It includes $3.7 billion of exposure to four pooled infrastructure transactions comprised of diversified pools of international infrastructure project transactions and loans to regulated utilities. These pools were all structured with underlying credit enhancement sufficient for the Company to attach at super senior AAA levels. The remaining $5.6 billion of exposure in Other CDS contracts is comprised of numerous deals typically structured with significant underlying credit enhancement and spread across various asset classes, such as commercial receivables, infrastructure, regulated utilities and consumer receivables. Substantially all of this $9.3 billion of exposure is rated investment grade and the weighted average credit rating is AA-.

The unrealized gain of $142.3 million on Other CDS contracts for the three months ended March 31, 2009 is primarily attributable to the aforementioned change in AGC s credit spread. This increased hedge cost caused the

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implied spreads of several UK public finance infrastructure transactions and a film securitization transaction to narrow during the quarter as on offset.

With considerable volatility continuing in the market, unrealized gains (losses) on credit derivatives may fluctuate significantly in future periods.

The Company s exposure to the mortgage industry is discussed in Note 7.

The following table presents additional details about the Company s unrealized loss on pooled corporate obligation credit derivatives, which includes collateralized loan obligations, market value CDOs and trust preferred securities, by asset type as of March 31, 2009:

Asset Type	Original Subordination(2)	Current Subordination(2)	Net Par Outstanding (in billions)	Weighted Average Credit Rating(1)	First Quarter 2009 Unrealized Gain (Loss) (in millions)
High yield corporate obligations	35.9%	29.6%	$ 22.8	AAA	$ (77.4)
Trust preferred	46.7%	41.7%	6.0	A-	75.3
Market value CDOs of corporate obligations	38.4%	27.3%	3.4	AAA	(7.0)
Investment grade corporate obligations	28.7%	29.9%	2.3	AAA	1.6
Commercial real estate	49.1%	47.9%	0.8	AAA	(2.2)
CDO of CDOs (corporate obligations)	1.7%	5.4%	0.1	AAA	(0.9)
Total	**37.7%**	**31.8%**	**$ 35.4**	**AA+**	**$ (10.5)**

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

(2) Represents the sum of subordinate tranches and over-collateralization and does not include any benefit from excess interest collections that may be used to absorb losses

The following table presents additional details about the Company s unrealized loss on credit derivatives associated with commercial mortgage-backed securities by vintage as of March 31, 2009:

Vintage	Original Subordination(2)	Current Subordination(2)	Net Par Outstanding (in billions)	Weighted Average Credit Rating(1)	First Quarter 2009 Unrealized Gain (Loss) (in millions)
2004 and Prior	19.8%	21.5%	$ 0.3	AAA	$ (0.6)
2005	27.8%	28.9%	3.4	AAA	(19.7)
2006	27.7%	28.5%	1.8	AAA	(9.6)

2007	35.8%	35.9%	0.2	AAA