

ASSURED GUARANTY LTD
Form S-1/A
April 22, 2004

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As filed with the Securities and Exchange Commission on April 22, 2004.

Registration No. 333-111491

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4
to

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Assured Guaranty Ltd.

(Formerly AGC Holdings Limited)

(Exact name of Registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

6351
(Primary Standard Industrial
Classification Code Number)
30 Woodbourne Avenue
Hamilton HM08 Bermuda
Telephone: (441) 296-4004

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

Not Applicable
(I.R.S. Employer
Identification No.)

CT Corporation System
111 Eighth Avenue, 13th Floor
New York, New York 10011

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

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**Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the
Registration Statement becomes effective.**

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED APRIL 22, 2004.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell nor does it seek any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

49,000,000 Shares

Common Shares

This is an initial offering of common shares of Assured Guaranty Ltd. ACE Limited, through subsidiaries (collectively, ACE), is offering 49,000,000 of our common shares in this offering. We will not receive any of the proceeds from the sale of the common shares by the selling shareholders. Upon completion of this offering, ACE will beneficially own approximately 35% of our outstanding common shares (approximately 25% if the underwriters' option to purchase additional shares is exercised in full).

No public market currently exists for our common shares. We anticipate that the initial public offering price of the common shares will be between \$18.00 and \$20.00 per share.

Our common shares have been approved for listing on the New York Stock Exchange under the symbol "AGO."

Investing in our common shares involves a high degree of risk. See "Risk Factors" beginning on page 11.

	Per Share	Total
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to the selling shareholders	\$	\$

To the extent the underwriters sell more than 49,000,000 common shares, the underwriters have the option to purchase up to an additional 7,350,000 common shares from the selling shareholders at the initial public offering price less the underwriting discount.

The Securities and Exchange Commission, state securities regulators, the Minister of Finance and the Registrar of Companies in Bermuda and the Bermuda Monetary Authority have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the common shares to investors on or about _____, 2004.

Banc of America Securities LLC

Goldman, Sachs & Co.

Citigroup

Deutsche Bank Securities

JPMorgan

Merrill Lynch & Co.

UBS Investment Bank

Wachovia Securities

William Blair & Company

Keefe, Bruyette & Woods

Prospectus dated , 2004.

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You should rely only on the information contained in this prospectus. We, ACE and the underwriters have not authorized any other person to provide you with different information. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read all of the information in this prospectus, including the combined financial statements and related notes, and the risks of investing in our common shares discussed under "Risk Factors," before making an investment decision.

References in this prospectus to "Assured Guaranty," "we," "us" and "our" refer to Assured Guaranty Ltd. and, unless the context otherwise requires or unless otherwise stated, its subsidiaries. When we refer to net par in this prospectus, we mean the par value of an obligation for which we have provided credit support, net of any amounts that we have ceded or retroceded to reinsurers. Our executive offices are located at 30 Woodbourne Avenue, Hamilton HM08 Bermuda, and our telephone number is 441-296-4004.

Overview

We are a Bermuda-based company providing credit enhancement products to the municipal 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. We apply our credit expertise, risk management skills and capital markets experience to develop insurance, reinsurance and derivative products that meet the credit enhancement needs of our 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 or commodity. We market our products directly and through financial institutions. We serve the U.S. and international markets.

Our financial results include three operating segments:

Financial guaranty direct, which protects the holder against an issuer's failure to pay principal and interest when due or other credit events.

Financial guaranty reinsurance, which indemnifies another financial guarantor, the ceding company, against part or all of the loss the ceding company may sustain under financial guaranty policies it has reinsured to us.

Mortgage guaranty, which protects mortgage lenders and investors against the default of borrowers on mortgage loans, and provides reinsurance to mortgage guaranty insurers.

Our other segment includes businesses that we have exited. The following table sets forth gross written premiums and the combined ratio for each of our segments for the year ended December 31, 2003.

	Gross Written Premiums ⁽¹⁾		Combined Ratio ⁽²⁾
	Amount	Percent	
	(\$ in millions)		
Financial guaranty direct	\$ 71.2	27.0%	58.0%
Financial guaranty reinsurance	168.7	63.8	73.3
Mortgage guaranty	24.4	9.2	58.7
Total operating segments	\$ 264.3	100.0%	65.6%
Other	84.9		112.6
Total	\$ 349.2		83.7%

- (1) Gross written premiums represents total premiums for insurance and credit derivatives written and reinsurance assumed during the period.
- (2) The combined ratio is the sum of the loss ratio (the ratio calculated by dividing net losses and loss adjustment expenses by net premiums earned) and the expense ratio (the ratio calculated by dividing profit commission expense, acquisition costs and operating expenses by net premiums earned). A combined ratio under 100% generally indicates an underwriting profit; a combined ratio over 100% generally indicates an underwriting loss.

Our businesses have a history of strong income generation, producing cumulative net income of \$444.1 million since January 1, 2000. As of December 31, 2003, we had cash and invested assets of \$2.2 billion, total assets of \$2.9 billion and shareholder's equity of \$1.4 billion (\$1.3 billion on a pro forma basis after giving effect to the transactions described under "Formation Transactions"). Our invested assets as of December 31, 2003 consisted entirely of cash and fixed maturity securities with an average rating of AA+. Our past performance may not be indicative of future results.

Our principal U.S. insurance subsidiary maintains financial strength ratings of "AAA" (Extremely Strong) from Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P"), the highest of its 21 ratings categories, and "Aa2" (Excellent) from Moody's Investors Service, Inc. ("Moody's"), the third highest of its 21 ratings categories. Our principal Bermuda insurance subsidiary maintains financial strength ratings of "AA" (Very Strong) from S&P, its third highest ratings category, "Aa3" (Excellent) from Moody's, its fourth highest ratings category, and "AA" (Very Strong) from Fitch, Inc. ("Fitch"), the third highest of its 24 ratings categories. On April 9, 2004, Moody's placed the insurance financial strength ratings of our insurance subsidiaries under review for possible upgrade. Moody's, however, indicated that the upgrades under consideration would most likely not exceed one notch ("Aa1" (Excellent), the second highest of its 21 ratings categories, for Assured Guaranty Corp. and "Aa2" (Excellent), the third highest of its 21 ratings categories, for our other principal insurance subsidiaries). A financial strength rating is an opinion with respect to an insurer's ability to pay under its insurance policies and contracts and is not a recommendation to buy, hold or sell any security issued by an insurer, including our common shares.

We have approximately 110 employees in offices located in the United States, Bermuda and the United Kingdom.

Business Fundamentals

We believe the credit enhancement markets offer attractive growth opportunities and financial returns over the long term. In recent years, new issuance volumes in the municipal and structured finance sectors have been increasing. From 1997 to 2002, insured U.S. asset-backed finance volume increased at a compound annual growth rate of 16%, and insured U.S. municipal finance volume increased at a compound annual growth rate of 10%. Asset-backed finance is a commonly-used technique in which debt instruments are issued that are backed by loans or accounts receivable (other than mortgage loans) originated by banks, credit card companies or other providers of credit. While growth rates may fluctuate from year to year, we believe demand for financial guaranty insurance and reinsurance will continue to be strong as a result of: (1) continuing demand for asset securitization, or the process of aggregating similar instruments, such as loans or mortgages, into a negotiable security, in the United States, (2) continued development of new structured products and expansion into new asset classes, (3) continued high level of issuances of U.S. municipal finance obligations and (4) increasing privatization initiatives and growing use of asset securitization in Europe. We cannot assure you that these circumstances will persist or that demand for financial guaranty insurance or reinsurance will continue to be strong.

We believe our business offers attractive and recurring revenues as a result of the stable nature of our earned premiums (that portion of written premiums that applies to the expired portion of the policy term and is therefore recognized as revenue under generally accepted accounting principles), the significant contribution of net investment income and the low frequency of loss associated with our businesses. A significant portion of our premiums are received up front and recognized as earned premiums over the life of the contract. As of December 31, 2003, we had \$625.4 million of unearned premiums (that portion of written premiums that is allocable to the unexpired portion of the policy term) recorded on our balance sheet. The remainder of our premiums are received on an installment basis and earned over each installment period. As of December 31, 2003, our estimate of the net present value of future premiums, discounted at 6% per year, expected to be earned under existing installment contracts was \$309.8 million. In addition, our invested assets, which were \$2.2 billion at December 31, 2003, generate recurring investment income.

Competitive Strengths

We believe that our competitive strengths enable us to capitalize on the opportunities in the credit enhancement markets. These strengths include:

Underwriting discipline and financial structuring expertise. We have a disciplined approach to underwriting that emphasizes profitability over market share. We have substantial experience in developing innovative credit enhancement solutions to satisfy the diverse risk and financial management demands of our customers.

Established market relationships. Over the past 15 years we have developed strong relationships with key participants in our markets, including issuers, investors, financial guarantors and financial institutions. We seek to distinguish ourselves from our competitors by providing innovative credit enhancement solutions and superior execution and client service.

Experienced management and underwriting team. Our senior management has an average of more than 16 years of experience in the insurance, credit or financial guaranty markets. We also have a team of 15 senior underwriters with an average of approximately 12 years of financial guaranty or similar credit experience.

Multiple locations and licenses. We have operations in Bermuda, the United States and the United Kingdom. We have a range of licenses that allows us to participate in many sectors of the credit enhancement market.

Corporate Strategy

Our objective is to build long-term shareholder value by achieving strong profitability through disciplined underwriting, proactive risk management and the growth of our business. Our goal is to improve our return on average equity (excluding the impact of realized gains and losses on investments and unrealized gains and losses on derivative financial instruments) to approximately 11% in 2004. In addition, our medium-term goal is to generate returns consistent with those of the leading performers in the financial guaranty industry. The major elements of our strategy are:

Expand our direct financial guaranty business. We intend to expand our direct financial guaranty business beyond our historical focus on credit derivatives by substantially increasing the amount of traditional financial guaranty insurance we write in U.S. and international markets. We believe the market for financial guaranty insurance will grow as the issuance of municipal and structured finance obligations continues to be strong, as capital providers continue to seek to reduce risk exposures and as

the market for credit enhancement products develops further. We intend to write business in a manner consistent with achieving our goal of obtaining a "Aaa" rating from Moody's to match our "AAA" rating from S&P.

Expand our financial guaranty reinsurance business. Our commitment to the financial guaranty reinsurance market, readiness to execute transactions and financial strength afford us a significant opportunity to profitably gain market share. We intend to utilize the benefits of our Bermuda license to improve our returns in this business.

Transition our mortgage guaranty business. We intend to write investment grade mortgage guaranty insurance and reinsurance that is consistent with our ratings objectives. Our industry experience and licenses enable us to provide mortgage credit enhancement in the form of either financial guaranty insurance or mortgage guaranty insurance to meet the specific needs of mortgage lenders and investors.

Expand our position in international markets. We intend to capitalize on significant growth opportunities in international markets. Our initial focus for international expansion is privatization finance initiatives ("PFI") in the United Kingdom, the largest market for financial guaranty insurance outside the United States, and public/private partnerships ("PPP") in the rest of Europe.

Maintain our commitment to financial strength. We recognize the importance of our excellent financial strength ratings and intend to write business in a manner consistent with achieving our goal of obtaining a "Aaa" rating from Moody's to match our "AAA" rating from S&P. We will maintain our financial strength through disciplined risk selection, prudent operating and financial leverage and a conservative investment posture.

Manage our capital efficiently. We will monitor rating agency capital adequacy requirements to appropriately deploy capital to optimize the execution of our business plan and our return on capital.

Risks Relating to Our Company

As part of your evaluation of us, you should take into account the risks we face in our business. These risks include:

Possibility of Ratings Downgrade. The ratings assigned to our insurance subsidiaries are subject to periodic review and may be downgraded by one or more of the rating agencies as a result of changes in the views of the rating agencies or adverse developments in our or our subsidiaries' financial conditions or results of operations. Any such downgrade could have an adverse effect on the affected subsidiary's results of operations or financial condition.

New Business Strategy. Because our new strategy emphasizes financial guaranty insurance and reinsurance and deemphasizes certain other lines of business in which we have historically operated, we cannot assure you that we will be able to successfully implement this strategy. Recent employee layoffs and resignations may adversely affect our ability to implement our new strategy. Any failure to implement all or any part of our strategy could have a material adverse effect on our results of operations.

Dependence on Customers. We have derived a substantial portion of our revenues from financial guaranty reinsurance premiums. For the years ended December 31, 2003, 2002 and 2001, 45%, 21% and 31%, respectively, of our gross written premiums were provided by four ceding companies. A significant reduction in the amount of reinsurance ceded by one or more of our principal ceding companies could have a material adverse effect upon our results of operations.

Business Subject to General Economic and Capital Markets Factors. Our business, and the risks associated with our business, depend in large measure on general economic conditions and capital markets activity. Prevailing interest rate levels also affect demand for financial guaranty insurance.

Adequacy of Loss Reserves. We establish liabilities, or loss reserves, to reflect the estimated cost of claims incurred that we will ultimately be required to pay in respect of insurance and reinsurance we have written. If our loss reserves at any time are determined to be inadequate, we will be required to increase loss reserves at the time of such determination. This could cause a material increase in our liabilities and a reduction in our profitability, or possibly an operating loss and reduction of capital.

Competition. We face significant competition in our business, and our revenues and profitability could decline as a result of competition. Four companies accounted for the vast majority of the gross written premiums for the entire financial guaranty industry in 2003. We also face competition from other forms of credit enhancement. There are also a relatively limited number of financial guaranty reinsurance companies and mortgage guaranty companies.

Taxation. We manage our business so that we and our non-U.S. subsidiaries (other than Assured Guaranty Re Overseas Ltd.) will not be subject to U.S. income tax. However, we cannot be certain that the U.S. Internal Revenue Service will not contend successfully that we or any of our foreign subsidiaries is/are engaged in a trade or business in the United States and thus subject to additional taxation in the United States.

For more information about these and other risks, see "Risk Factors" beginning on page 10. You should carefully consider these risk factors together with all of the other information included in this prospectus before making an investment decision.

Corporate Structure

Assured Guaranty was incorporated in Bermuda in August 2003 for the sole purpose of becoming a holding company for ACE's subsidiaries conducting its financial and mortgage guaranty businesses, which we refer to as the transferred businesses, in connection with this offering. Certain of the transferred businesses were originally conducted by subsidiaries of Capital Re Corporation ("Capital Re"), which was acquired by ACE in December 1999.

After the consummation of the transactions described under "Formation Transactions" and the completion of this offering, ACE will beneficially own 26,000,000 of our common shares, or approximately 35% of our outstanding common shares (18,650,000 common shares, or approximately 25% of our outstanding common shares if the underwriters' option to purchase additional common shares is exercised in full). After the offering, we will have a number of continuing agreements with ACE, including reinsurance agreements pursuant to which we have ceded or will cede to ACE certain risks and services agreements pursuant to which ACE will provide us with various administrative services. All of these agreements and arrangements are more fully described under "Relationship with ACE."

Each of our operating subsidiaries conducted business under names including "ACE," "AGR" and/or "Capital Re." As part of the formation transactions described under "Formation Transactions," we are changing the names of each of these subsidiaries to the respective names set forth below (or derivations of these names). All of these name changes may not be completed prior to the completion of this offering.

The following organization chart illustrates the corporate relationships among us and our principal subsidiaries as they will exist upon completion of this offering (all ownership interests are 100% except where noted):

The Offering

Common shares offered in this offering	49,000,000 shares
Common shares outstanding before and after the offering	75,000,000 shares
Common shares beneficially owned by ACE after the offering	26,000,000 shares
Use of proceeds	We will not receive any proceeds from this offering of common shares. The selling shareholders will pay substantially all of the expenses of this offering.
Dividend policy	We intend to pay a quarterly cash dividend of \$0.03 per common share (\$0.12 annually), commencing in August 2004, subject to declaration by our board of directors. See "Dividend Policy" and "Business Regulation."

New York Stock Exchange symbol "AGO"

The information in this prospectus assumes that the underwriters do not exercise their option to purchase up to 7,350,000 additional common shares from the selling shareholders to cover over-allotments and gives effect to the transactions to be completed immediately prior to the consummation of this offering pursuant to which we will issue to ACE 75,000,000 of our common shares, as described below under "Formation Transactions." Unless otherwise specified, the information in this prospectus does not take into account the issuance of options to purchase 1,874,833 of our common shares at an exercise price equal to the initial public offering price and 937,417 restricted shares that will be granted in connection with this offering and 4,687,750 additional common shares that will be reserved for issuance under our 2004 Long-Term Incentive Plan.

Recent Developments**Results for the Quarter ended March 31, 2004**

We currently expect to report net income of \$43 million to \$49 million, or \$0.57 to \$0.65 per diluted share, for the three months ended March 31, 2004. Of this amount, \$1 million to \$3 million, or \$0.01 to \$0.04 per diluted share, relates to the unwinding of certain transactions and other actions taken in connection with our change in business strategy. Net income for the first quarter of 2004 includes net after-tax realized gains on investments and unrealized gains on derivatives transactions of \$3 million to \$5 million, which includes \$8 million to \$10 million of net after-tax unrealized losses on derivatives transactions relating to the unwinding of certain transactions and other actions taken in connection with our change in business strategy. As a result of these transactions, our results for the first quarter of 2004 may not be indicative of our results for the full year ended December 31, 2004.

Our shareholder's equity as of March 31, 2004 is currently expected to be \$1,500 million to \$1,525 million. On a pro forma basis giving effect to the formation transactions described under "Formation Transactions" and the transactions described under "Supplemental Pro Forma Condensed Combined Financial Information (Unaudited)" our shareholder's equity as of March 31, 2004 is currently expected to be \$1,375 million to \$1,400 million, or \$18.11 to \$18.44 per diluted share.

The preceding financial information contains forward-looking statements relating to our results of operations for the three months ended March 31, 2004 and our financial condition as of that date. Our actual results could differ from these forward-looking statements. Factors that could cause our actual results to differ from these forward-looking statements include the possibility of accounting adjustments resulting from our usual quarter-end accounting and review procedures and the other factors described under "Forward-Looking Statements."

Resignation of Senior Officer

On March 31, 2004, Joseph W. Swain III, who until December 2003 had been the chief executive officer of ACE's financial guaranty business and was thereafter the President-Reinsurance of Assured Guaranty US Holdings Inc., resigned. In his resignation, Mr. Swain cited differences with management over our new business strategy and our ability to execute this strategy as a result of his concerns about the relevant experience of certain members of management, staffing levels and corporate culture. Management believes these concerns are unfounded. We have promoted Robbin Conner, a senior executive of Assured Guaranty Corp., to replace Mr. Swain as the head of our financial guaranty reinsurance business. Please see "Management" for a discussion of Mr. Conner's business experience.

Senior Notes Offering

We currently anticipate issuing \$200 million of senior notes as soon as practicable following the completion of this offering to refinance a \$200 million promissory note owed to ACE. We cannot assure you that this issuance of senior notes will be consummated. Moreover, as of this date, the price, timing and other terms of the proposed senior notes have not been finalized. See "Forward-Looking Statements."

Summary Combined Financial Information

The summary combined statement of operations data for each of the years ended December 31, 2003, 2002 and 2001 and the summary combined balance sheet data as of December 31, 2003 and 2002 are derived from our audited combined financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and appear elsewhere in this prospectus. The summary combined balance sheet data as of December 31, 2001 are derived from our audited combined financial statements, which have been prepared in accordance with GAAP.

These historical results are not necessarily indicative of results to be expected for any future period. You should read the following summary combined financial information together with the other information contained in this prospectus, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Statement of operations data:			
Gross written premiums	\$ 349.2	\$ 417.2	\$ 442.9
Net written premiums ⁽¹⁾	491.5	352.5	206.6
Net earned premiums	\$ 310.9	\$ 247.4	\$ 293.5
Net investment income	96.3	97.2	99.5
Net realized investment gains	5.5	7.9	13.1
Unrealized gains (losses) on derivative financial instruments	98.4	(54.2)	(16.3)
Other income	1.2	3.6	2.9
Total revenues	512.3	302.0	392.9
Loss and loss adjustment expenses	144.6	120.3	177.5
Profit commission expense	9.8	8.5	9.0
Acquisition costs	64.9	48.4	51.1
Operating expenses	41.0	31.0	29.8
Goodwill amortization			3.8
Interest expense	5.7	10.6	11.5
Total expenses	266.1	218.8	282.8
Income before income taxes	246.2	83.2	110.1
Provision (benefit) for income taxes	31.7	10.6	22.2
Net income before cumulative effect of new accounting standard	214.5	72.6	87.9
Cumulative effect of new accounting standard, net of taxes			(24.1)
Net income	\$ 214.5	\$ 72.6	\$ 63.8
Balance sheet data (end of period):			
Investments and cash	\$ 2,222.1	\$ 2,061.9	\$ 1,710.8
Prepaid reinsurance premiums	11.0	179.5	171.5

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Year Ended December 31,

Total assets	2,857.9	2,719.9	2,322.1
Unearned premium reserve	625.4	613.3	500.3
Reserve for losses and loss adjustment expenses	522.6	458.8	401.1
Long-term debt	75.0	75.0	150.0
Total liabilities	1,420.2	1,462.6	1,260.4
Accumulated other comprehensive income	81.2	89.0	43.3
Shareholder's equity	1,437.6	1,257.2	1,061.6
Pro forma information: ⁽²⁾			
Debt	\$	200.0	
Shareholder's equity		1,311.6	
Book value per share ⁽³⁾		17.27	

Year Ended December 31,

GAAP financial information:				
Loss and loss adjustment expense ratio ⁽⁴⁾	46.5%	48.6%	60.5%	
Expense ratio ⁽⁵⁾	37.2	35.5	30.6	
Combined ratio	83.7%	84.1%	91.1%	

Contingency reserve ⁽⁶⁾	\$	410.5	\$	315.5	\$	228.9
Policyholders' surplus		980.5		835.4		833.2

Net in-force business (principal and interest)	\$ 130,047	\$ 124,082	\$ 117,909
Net in-force business (principal only)	87,524	80,394	75,249
Present value of gross premiums written ⁽⁷⁾	238.8	215.5	195.0
Net present value of installment premiums in-force ⁽⁸⁾	309.8	260.2	159.7

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RISK FACTORS

An investment in our common shares involves a number of risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before investing in our common shares. The risks and uncertainties described below are not the only ones we face. However, these are the risks our management believes are material. Additional risks not presently known to us or that we currently deem immaterial may also impair our business or results of operations. Any of the risks described below could result in a significant or material adverse effect on our results of operations or financial condition, and a corresponding decline in the market price of our common shares. You could lose all or part of your investment.

This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this prospectus. See "Forward-Looking Statements."

Risks Related to Our Company

A downgrade of the financial strength or financial enhancement ratings of any of our insurance subsidiaries could adversely affect our business and prospects and, consequently, our results of operations and financial condition.

Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. The objective of these ratings is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to its policyholders. Ratings reflect the rating agencies' opinions of our financial strength, and are neither evaluations directed to investors in our common shares nor recommendations to buy, sell or hold our common shares. As of the date of this prospectus, Assured Guaranty Corp. has been assigned a "AAA" (Extremely Strong) rating from S&P, the highest of the 21 ratings categories used by S&P, and a "Aa2" (Excellent) rating from Moody's, the third highest of the 21 ratings categories used by Moody's. All of our other insurance company subsidiaries have been assigned "AA" (Very Strong) ratings from S&P, the third highest ratings category used by S&P, "Aa3" (Excellent) ratings from Moody's, the fourth highest ratings category used by Moody's, and "AA" (Very Strong) ratings from Fitch, the third highest of the 24 ratings categories used by Fitch. On April 9, 2004, Moody's placed the insurance financial strength ratings of our insurance subsidiaries under review for possible upgrade. Moody's, however, indicated that the upgrades under consideration would most likely not exceed one notch ("Aa1" (Excellent), the second highest of its 21 ratings categories, for Assured Guaranty Corp. and "Aa2" (Excellent), the third highest of its 21 ratings categories, for our other principal insurance subsidiaries). A financial strength rating is an opinion with respect to an insurer's ability to pay under its insurance policies and contracts in accordance with their terms. The opinion is not specific to any particular policy or contract. Financial strength ratings do not refer to an insurer's ability to meet non-insurance obligations and are not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold, or sell any security issued by an insurer, including our common shares. Assured Guaranty Corp.'s S&P ratings outlook is "Negative." While an S&P outlook is not necessarily a precursor to a ratings change, a "Negative" outlook means a rating may be lowered.

In addition, AGRI and AGRO carry financial enhancement ratings from S&P of "AA" (Very Strong).

The ratings assigned by S&P, Moody's and Fitch to our insurance subsidiaries are subject to periodic review and may be downgraded by one or more of the rating agencies as a result of changes in the views of the rating agencies or adverse developments in our or our subsidiaries' financial conditions

or results of operations due to underwriting or investment losses or other factors. We are in ongoing discussions with S&P and Moody's regarding our ratings, including the impact on our ratings of the Formation Transactions, this offering and our new business strategy. As a result, the ratings assigned to our insurance subsidiaries by either or both of S&P and Moody's may change at any time. In the case of AGRO and Assured Guaranty Mortgage, their ratings are dependent upon contractual support provided by AGRI.

If the ratings of any of our insurance subsidiaries were reduced below current levels by any of the rating agencies, it could have an adverse effect on the affected subsidiary's competitive position and its prospects for future business opportunities. A downgrade may also reduce the value of the reinsurance we offer, which may no longer be of sufficient economic value for our customers to continue to cede to our subsidiaries at economically viable rates.

With respect to a significant portion of our in-force financial guaranty reinsurance business, in the event of certain downgrades, the ceding company has the right to recapture business ceded to the affected subsidiary and assets representing substantially all of the statutory unearned premium and loss reserves (if any) associated with that business, with a corresponding negative impact to earnings, which could be significant. Alternatively, the ceding company can increase the commissions it charges us for cessions. Any such increase may be retroactive to the date of the cession, requiring the affected subsidiary to refund a portion of related premium previously earned, with a corresponding negative impact to earnings, which could be significant. In the event of a downgrade of any of our subsidiaries that write or insure exposures relating to contracts that allow for the use of derivative instruments to transfer credit risk, or credit derivatives, a downgrade below negotiated levels may allow a counterparty to terminate its agreements, resulting in the possible payment of a settlement amount. A downgrade also will increase the possibility that we may have to pledge collateral for the benefit of a counterparty.

A downgrade may also negatively impact the affected company's ability to write new business or negotiate favorable terms on new business.

Our success depends on our ability to successfully execute our new business strategy.

Our strategy is to focus on two core businesses: (1) financial and mortgage guaranty insurance and (2) financial guaranty reinsurance.

The fact that Assured Guaranty Corp., through which we write financial guaranty insurance, carries a triple-A rating from S&P but not from Moody's places it at a competitive disadvantage against companies rated triple-A by both S&P and Moody's. The absence of a triple-A rating from Moody's may adversely affect the desirability of our financial guaranty insurance, and in fact may preclude us from successfully marketing our financial guaranty insurance in certain markets. Furthermore, while we have a substantial in-force book of financial guaranty direct business, the majority of that exposure was written in the credit derivatives market rather than in the more traditional third-party financial guaranty insurance market. We may not be able to successfully expand relationships with issuers, servicers and other parties that are necessary to generate business in the traditional financial guaranty insurance market. Finally, Assured Guaranty Corp. presently is licensed in 45 states and the District of Columbia, and is seeking licenses in those U.S. jurisdictions where it is not presently licensed. Assured Guaranty Corp. may not be able to obtain those licenses, or may face delays in obtaining those licenses.

We are combining our mortgage guaranty business and our financial guaranty business. We intend to write mortgage guaranty insurance that is rated investment grade. We may not be able to source mortgage guaranty insurance business of this type in sufficient amounts or at adequate premium rates.

We intend to write more of our financial guaranty reinsurance through AGRI, which is rated in the double-A category by both S&P and Moody's, and less of this business through Assured Guaranty Corp., which is rated AAA/Aa2. The absence of a triple-A rating from S&P or Moody's places AGRI at a competitive disadvantage against companies rated triple-A by S&P or Moody's.

Because our strategy includes focusing on new lines of business in which we and our senior management have less experience, we cannot assure you that we will be able to successfully implement this strategy. In addition, recent employee layoffs and resignations have resulted in the loss of some experienced employees and reduced staff levels generally, which could adversely affect our ability to successfully implement our new strategy. Any failure to implement all or any part of our strategy could have a material adverse effect on our results of operations.

We are dependent on a small number of ceding companies to provide us with a substantial part of our reinsurance business.

Historically, we have derived a substantial portion of our revenues from financial guaranty reinsurance premiums. Ambac Assurance Corporation ("Ambac"), Financial Guaranty Insurance Company ("FGIC"), Financial Security Assurance Inc. ("FSA") and MBIA Insurance Corporation ("MBIA") in the aggregate accounted for 45%, 21% and 31% of our gross written premiums for the years ended December 31, 2003, 2002 and 2001. For the year ended December 31, 2003, 25% and 11% of our gross written premiums were ceded by FSA and MBIA, respectively. For the year ended December 31, 2002, 11% of our gross written premiums was paid by Dresdner Bank and in 2001, FSA and Credit Suisse provided 13% and 10%, respectively, of our gross written premiums. Gross written premiums from Dresdner Bank and Credit Suisse were paid with respect to equity layer credit protection, a business that we have exited.

A significant reduction in the amount of reinsurance ceded by one or more of our principal ceding companies could have a material adverse effect upon our results of operations. A number of factors could cause such a reduction. For example, there is likely to be some reluctance among our principal ceding companies to cede business to us as a result of our intent to compete with them in the direct financial guaranty business. In addition, primary insurers may retain higher levels of risk. Also, the volume of municipal bond and structured securities new issuances, together with the levels of and changes in interest rates and investor demand, may significantly affect the new business activities of primary financial guaranty insurers and, consequently, their use of reinsurance.

Additionally, our ability to receive profitable pricing for our reinsurance depends largely on prices charged by the primary insurers for their insurance coverage and the amount of ceding commissions paid by us to these primary insurers.

General economic factors, including fluctuations in interest rates and housing prices, may adversely affect our loss experience and the demand for our products.

Our business, and the risks associated with our business, depend in large measure on general economic conditions and capital markets activity. Our loss experience could be materially adversely affected by extended national or regional economic recessions, business failures, rising unemployment rates, interest rate changes or volatility, changes in investor perceptions regarding the strength of financial guaranty providers and the policies or guaranties offered by such providers, investor concern over the credit quality of municipalities or corporations, terrorist attacks, acts of war, or combinations of such factors. These events could also materially decrease demand for financial guaranty insurance. In addition to exposure to general economic factors, we are exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by our financial guaranty products.

Prevailing interest rate levels affect capital markets activity which in turn affects demand for financial guaranty insurance. Higher interest rates may result in declines in new issue and refunding volume which may reduce demand for our financial guaranty products. Lower interest rates generally are accompanied by narrower interest rate spreads between insured and uninsured obligations. The purchase of insurance during periods of narrower interest rate spreads generally will provide lower cost savings to the issuer than during periods of wider spreads. These lower cost savings could be accompanied by a corresponding decrease in demand for financial guaranty insurance. However, the increased level of refundings during periods of lower interest rates historically has increased the demand for insurance.

Under the standard mortgage insurance policies that we reinsure, a default on the underlying mortgage generally will give the insurer the option to pay the entire loss amount and take title to the mortgaged property or pay the coverage percentage in full satisfaction of its obligations under the policy. Due to a strong housing market in recent years, insurers have been able to take advantage of paying the entire loss amount and selling properties quickly. If housing values depreciate or fail to appreciate, the primary insurers' ability to recover amounts paid on defaulted mortgages may be reduced or delayed, which in turn may lead to increased losses under our related reinsurance contracts and have a material adverse affect on our results of operations or our financial condition in general.

If claims exceed our loss reserves, our financial results could be significantly adversely affected.

Our results of operations and financial condition depend upon our ability to assess accurately and manage the potential loss associated with the risks that we insure and reinsure. We establish loss and loss adjustment expense reserves based on estimates involving actuarial and statistical projections of our expectations of the ultimate settlement and administration costs of claims on the policies we write. We use actuarial models as well as historical insurance industry loss development patterns as estimates of future trends in claims severity, frequency and other factors to establish our estimate of loss reserves. Establishing loss reserves is an inherently uncertain process. Accordingly, actual claims and claim expenses paid may deviate, perhaps materially, from the reserve estimates reflected in our combined financial statements.

If our loss reserves at any time are determined to be inadequate, we will be required to increase loss reserves at the time of such determination. This could cause a material increase in our liabilities and a reduction in our profitability, or possibly an operating loss and reduction of capital.

Adverse selection by ceding companies may adversely affect our financial results.

A portion of our reinsurance business is written under treaties, which generally give the ceding company some ability to select the risks ceded to us as long as they are covered by the terms of the treaty. There is a risk under these treaties that the ceding companies will adversely select the risks ceded to us by ceding those exposures that have higher rating agency capital charges or that the ceding companies expect to be less profitable. We attempt to mitigate this risk in a number of ways, including requiring ceding companies to retain a minimum amount, which varies by treaty, of the ceded business. If we are unsuccessful in mitigating this risk, our financial results may be adversely affected.

Our financial guaranty products may subject us to significant risks from individual or correlated credits.

The breadth of our business exposes us to potential losses in a variety of our products as a result of a credit problem at one company ("single name" exposure). For example, we could have direct exposure to a corporate credit for which we write and/or insure a credit derivative. We could also be

exposed to the same corporate credit risk if the credit's securities are contained in a portfolio of collateralized debt obligations ("CDOs") we insure, or if it is the originator or servicer of loans or other assets backing structured securities that we have insured. A CDO is a debt security backed by a pool of debt obligations. While we track our aggregate exposure to single names in our various lines of business and have established underwriting criteria to manage risk aggregations, there can be no assurance that our ultimate exposure to a single name will not exceed our underwriting guidelines, or that an event with respect to a single name will not cause a significant loss. In addition, because we insure or reinsure municipal bonds, we can have significant exposures to single municipal risks. While the risk of a complete loss, where we pay the entire principal amount of an issue of bonds and interest thereon with no recovery, is generally lower than for corporate credits as most municipal bonds are backed by tax or other revenues, there can be no assurance that a single default by a municipality would not have a material adverse effect on our results of operations or financial condition.

Some of our direct financial guaranty products may be riskier than traditional financial guaranty insurance.

Unlike our triple-A monoline financial guaranty competitors, a substantial portion of our financial guaranty direct exposures have been assumed as credit derivatives. Traditional financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a municipal finance or structured finance obligation against non-payment of principal and interest, while credit derivatives provide protection from the occurrence of specified credit events, including non-payment of principal and interest. Credit derivative products generally also provide for settlement of an entire exposure, rather than a missed payment obligation as in traditional financial guaranty, upon the occurrence of a credit event, which could require us to sell assets or otherwise generate liquidity in advance of any potential recoveries.

Competition in our industry may adversely affect our revenues.

We face significant competition in our business, and our revenues and profitability could decline as a result of competition.

The financial guaranty industry is highly competitive. The principal sources of direct and indirect competition are other financial guaranty insurance companies, most of which have greater financial resources and superior financial strength ratings than we do. Four companies, Ambac, FGIC, FSA and MBIA, accounted for the vast majority of the gross written premiums for the entire financial guaranty industry in 2003. We also face competition from other forms of credit enhancement, including structural enhancement incorporated in structured and other obligations and letters of credit, guaranties and credit derivatives provided primarily by foreign and domestic banks and other financial institutions, some of which are governmental enterprises or have been assigned the highest ratings awarded by one or more of the major rating agencies.

There are also a relatively limited number of financial guaranty reinsurance companies. As a result, the industry is particularly vulnerable to swings in capacity based on the entry or exit of one or a small number of financial guaranty reinsurers.

New entrants into the financial guaranty industry could have an adverse effect on our prospects either by furthering price competition or by reducing the aggregate demand for our reinsurance as a result of additional insurance capacity. The most significant barriers to entry for new financial guaranty competitors are rating agency requirements and regulatory capital requirements, as well as the limited availability of experienced management. New entrants or additional reinsurance capacity would likely have an adverse effect on our business. An investor group, which includes MBIA, recently announced

the formation of a new Bermuda-based triple-A rated financial guaranty reinsurer, and we cannot assure you what impact, if any, such entity may have on the financial guaranty reinsurance market.

With respect to mortgage guaranty reinsurance, we compete with a number of other reinsurance companies as well as with alternatives to reinsurance, including risk-sharing arrangements with affiliates of the mortgage insurers and lender-owned captives. Many of these competitors have greater experience and relationships in these markets. See also "Business Competition."

We are dependent on key executives and the loss of any of these executives, or our inability to retain other key personnel, could adversely affect our business.

Our success substantially depends upon our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe there are only a limited number of available qualified executives in the business lines in which we compete. Although we are not aware of any planned departures, we rely substantially upon the services of Dominic J. Frederico, our President and Chief Executive Officer, and Michael J. Schozer, the President of Assured Guaranty Corp. Although each of these individuals will have employment agreements with us, we cannot assure you that we will be able to retain their services. The loss of the services of either of these individuals or other key members of our management team could adversely affect the implementation of our business strategy, which could have a material adverse effect on our business. We do not currently maintain key man life insurance policies with respect to any of our employees. The inability to attract and retain other talented personnel could also adversely affect our business.

Reduction in staffing levels could adversely affect our ability to successfully implement our new business strategy.

In connection with this offering and the implementation of our new business strategy, we are reducing our total headcount to approximately 100 people through reductions in force and attrition. Some of our employees who have left or who have been terminated had relevant experience and their loss could adversely affect our ability to successfully implement our new business strategy. In addition, if our new business strategy is successful in generating a substantial amount of new business, we may be required to seek additional staff. We cannot assure you that we will be able to identify and hire experienced new staff on a timely basis.

Our business could be adversely affected by Bermuda employment restrictions.

Our location in Bermuda may serve as an impediment to attracting and retaining experienced personnel. Special considerations apply to our Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates or working resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate or working resident certificates is available who meets the minimum standards for the position. The Bermuda government has announced a policy that places a six-year term limit on individuals with work permits, subject to specified exemptions for persons deemed to be key employees. All of our Bermuda-based employees who require work permits have been granted provisional permits by the Bermuda government, including our President and Chief Executive Officer, Chief Financial Officer, General Counsel and Secretary and Chief Actuary. It is possible that we could lose the services of one or more of our key employees if we

are unable to obtain or renew their work permits, which could have a material adverse affect on our business.

We may be adversely affected by interest rate changes affecting the performance of our investment portfolio.

Our operating results are affected, in part, by the performance of our investment portfolio. Changes in interest rates could also have an adverse effect on our investment income. For example, if interest rates decline, funds reinvested will earn less than expected. Our investment portfolio contains interest rate-sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. Increases in interest rates will reduce the value of these securities, resulting in unrealized losses that we are required to include in shareholder's equity as a change in accumulated other comprehensive income. Accordingly, interest rate increases could reduce our shareholder's equity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Valuation of Investments."

In addition, our investment portfolio includes mortgage-backed securities. As of December 31, 2003, mortgage-backed securities constituted approximately 25% of our invested assets. As with other fixed maturity investments, the fair market value of these securities fluctuates depending on market and other general economic conditions and the interest rate environment. Changes in interest rates can expose us to significant prepayment risks on these investments. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities are prepaid more quickly, requiring us to reinvest the proceeds at then-current market rates. During periods of rising interest rates, the frequency of prepayments generally decreases. Mortgage-backed securities having an amortized value less than par (*i.e.*, purchased at a discount) may incur a decrease in yield or a loss as a result of slower prepayment.

Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political conditions and other factors beyond our control. We do not engage in active management, or hedging, of interest rate risk, and may not be able to mitigate interest rate sensitivity effectively.

The performance of our invested assets affects our results of operations and cash flows.

Income from our investment portfolio is one of the primary sources of cash flows supporting our operations and claim payments. For the years ended December 31, 2003, 2002 and 2001, our net investment income was \$96.3 million, \$97.2 million and \$99.5 million, respectively, in each case exclusive of net realized gains on investments. If our calculations with respect to our policy liabilities are incorrect, or if we improperly structure our investments to meet these liabilities, we could have unexpected losses, including losses resulting from forced liquidation of investments before their maturity. The investment policies of our insurance subsidiaries are subject to insurance law requirements, and may change depending upon regulatory, economic and market conditions and the existing or anticipated financial condition and operating requirements, including the tax position, of our businesses.

We have retained Lazard Freres Asset Management and Hyperion Capital Management, Inc. to manage our investment portfolio. The performance of our invested assets is subject to their performance in selecting and managing appropriate investments. These investment managers have discretionary authority over our investment portfolio within the limits of our investment guidelines.

Our net income may be volatile because a portion of the credit risk we assume is in the form of credit derivatives that are accounted for under FAS 133, which requires that these instruments be marked-to-market quarterly.

Any event causing credit spreads (*i.e.*, the difference in interest rates between comparable securities having different credit risk) on an underlying security referenced in a credit derivative in our portfolio either to widen or to tighten will affect the fair value of the credit derivative and may increase the volatility of our earnings. Credit derivatives are classified as derivatives under Statement of Financial Accounting Standards No. 133. Derivatives must be accounted for either as assets or liabilities on the balance sheet and measured at fair market value. Although there is no cash flow effect from this "marking to market," net changes in the fair market value of the derivative are reported in our statement of operations and therefore will affect our reported earnings. If the derivative is held to maturity and no credit loss is incurred, any gains or losses previously reported would be offset by corresponding gains or losses at maturity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Valuation of Derivative Financial Instruments."

Common events that may cause credit spreads on an underlying municipal or corporate security referenced in a credit derivative to fluctuate include changes in the state of national or regional economic conditions, industry cyclicality, changes to a company's competitive position within an industry, management changes, changes in the ratings of the underlying security, movements in interest rates, default or failure to pay interest, or any other factor leading investors to revise expectations about the issuer's ability to pay principal and interest on its debt obligations. Similarly, common events that may cause credit spreads on an underlying structured security referenced in a credit derivative to fluctuate may include the occurrence and severity of collateral defaults, changes in demographic trends and their impact on the levels of credit enhancement, rating changes, changes in interest rates or prepayment speeds, or any other factor leading investors to revise expectations about the risk of the collateral or the ability of the servicer to collect payments on the underlying assets sufficient to pay principal and interest.

An increase in our subsidiaries' risk-to-capital ratio or leverage ratio may prevent them from writing new insurance.

Rating agencies and insurance regulatory authorities impose capital requirements on our insurance subsidiaries. These capital requirements, which include risk-to-capital ratios, leverage ratios and surplus requirements, limit the amount of insurance that our subsidiaries may write. Our insurance subsidiaries have several alternatives available to control their risk-to-capital ratios and leverage ratios, including obtaining capital contributions from us, purchasing reinsurance or entering into other loss mitigation agreements, or reducing the amount of new business written. However, a material reduction in the statutory capital and surplus of a subsidiary, whether resulting from underwriting or investment losses or otherwise, or a disproportionate increase in the amount of risk in force, could increase a subsidiary's risk-to-capital ratio or leverage ratio. This in turn could require that subsidiary to obtain reinsurance for existing business (which may not be available, or may be available on terms that we consider unfavorable), or add to its capital base to maintain its financial strength ratings. Failure to maintain such ratings could limit that subsidiary's ability to write new business, which could materially adversely affect our results of operations and financial condition.

We may require additional capital in the future, which may not be available or may be available only on unfavorable terms.

Our capital requirements depend on many factors, including our in-force book of business and rating agency capital requirements. To the extent that our existing capital is insufficient to meet these requirements and/or cover losses, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could result in dilution to our shareholders and the securities may have rights, preferences and privileges that are senior to those of our common shares. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

Adequate soft capital support may not be available.

Financial guaranty insurers and reinsurers typically rely on providers of lines of credit, credit swap facilities and similar capital support mechanisms (often referred to as "soft capital") to supplement their "hard capital." The ratings of soft capital providers directly affect the level of capital credit which the rating agencies attribute to the financial guaranty insurer or reinsurer when rating its financial strength. We intend to maintain soft capital facilities with providers having ratings adequate to provide the desired capital credit, although no assurance can be given that one or more of the rating agencies will not downgrade or withdraw the applicable ratings of such providers in the future. In addition, we cannot assure you that an acceptable replacement provider would be available in that event.

We may require additional liquidity in the future, which may not be available or may be available only on unfavorable terms.

We require liquidity in order to pay our operating expenses, interest on our debt and dividends on our common shares, and to make capital investments in our operating subsidiaries. We anticipate that our need for liquidity will be met by (1) the ability of our subsidiaries to pay dividends or to make other payments to us, (2) external financings, and (3) income from our investment portfolio. Some of our subsidiaries are subject to legal and rating agency restrictions on their ability to pay dividends and make other permitted payments, and external financing may or may not be available to us in the future on satisfactory terms. Our other subsidiaries are subject to legal restrictions on their ability to pay dividends and distributions. See "Dividend Policy" and "Business Regulation." While we believe that we will have sufficient liquidity to satisfy our needs over the next 12 months, there can be no assurance that adverse market conditions, changes in insurance regulatory law or changes in general economic condition that adversely affect our liquidity will not occur. Similarly, there can be no assurance that adequate liquidity will be available to us on favorable terms in the future.

Liquidity at our operating subsidiaries is used to pay operating expenses, claims, reinsurance premiums and dividends to us, as well as, where appropriate, to make capital investments in their own subsidiaries. Liquidity at Assured Guaranty US Holding is also used to make payments under the Tax Allocation Agreement with ACE Financial Services, described under "Relationship with ACE Tax Allocation Agreement." While we believe that the operating cash flows of our subsidiaries will be sufficient to meet their needs, we cannot assure you that this will be the case, nor can we assure you that existing liquidity facilities will prove adequate to their needs, or be available to them on favorable terms in the future.

Changes in tax laws could reduce the demand or profitability of financial guaranty insurance, or negatively impact our investment portfolio.

Any material change in the U.S. tax treatment of municipal securities, the imposition of a "flat tax," the imposition of a national sales tax in lieu of the current federal income tax structure in the United States, or changes in the treatment of dividends, could adversely affect the market for municipal obligations and, consequently, reduce the demand for financial guaranty insurance and reinsurance of such obligations.

The Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted in May 2003, significantly reduces in certain situations the federal income tax rate for individuals on dividends and long-term capital gains through 2008. This tax change may adversely affect the market for municipal obligations and, consequently, reduce the demand for financial guaranty insurance and reinsurance of these obligations, which could reduce our revenue and profitability from the writing of such insurance and reinsurance. Future potential changes in U.S. tax laws might also affect demand for municipal securities and for financial guaranty insurance and reinsurance of those obligations.

Changes in U.S. federal, state or local laws that materially adversely affect the tax treatment of municipal securities or the market for those securities, or other changes negatively affecting the municipal securities market, also may adversely impact our investment portfolio, a significant portion of which is invested in tax-exempt instruments. These adverse changes may adversely affect the value of our tax-exempt portfolio, or its liquidity.

Legislative and regulatory changes and interpretations could harm our business.

Changes in laws and regulations affecting insurance companies, the municipal and structured securities markets, the financial guaranty and mortgage guaranty insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, may subject us to additional legal liability, or affect the demand for the products that we provide. For example, recent uncertainty regarding the accounting for structured securities significantly, though temporarily, reduced new issuances of certain types of structured securities.

Our ability to meet our obligations may be constrained by our holding company structure.

Assured Guaranty is a holding company and, as such, has no direct operations of its own. We do not expect to have any significant operations or assets other than our ownership of the shares of our subsidiaries. Dividends and other permitted payments from our operating subsidiaries are expected to be our primary source of funds to meet ongoing cash requirements, including any future debt service payments and other expenses, and to pay dividends to our shareholders. Our insurance subsidiaries are subject to regulatory and rating agency restrictions limiting their ability to declare and to pay dividends and make other payments to us. In addition, to the extent that dividends are paid from our U.S. subsidiaries, they presently would be subject to U.S. withholding tax at a rate of 30%, subject, in the case of Assured Guaranty Overseas US Holdings, to possible reduction to 5% under the income tax treaty between the United States and Barbados. The inability of our insurance subsidiaries to pay sufficient dividends and make other permitted payments to us could have a material adverse effect on our ability to satisfy our ongoing cash requirements and on our ability to pay dividends to our shareholders. For more information regarding these limitations, see "Business Regulation."

Our ability to pay dividends may be constrained by our holding company structure.

As noted in the immediately preceding paragraph, Assured Guaranty is a holding company and, as such, has no direct operations of its own. Accordingly, we expect dividends and other permitted

payments from our operating subsidiaries to be our primary source of funds from which to pay dividends. Our insurance subsidiaries are subject to regulatory and rating agency restrictions limiting their ability to declare and to pay dividends and make other permitted payments. In addition, to the extent that dividends are paid from our direct U.S. subsidiaries, they may be subject to withholding taxes. While we currently intend to pay dividends, if you require dividend income you should carefully consider these risks before investing in our company. If we do not pay dividends, the only return on your investment in our company, if at all, would come from any appreciation in the price of our common shares. For more information regarding limitations on our ability to pay dividends, see "Dividend Policy" and "Business Regulation."

Our ability to pay dividends may be constrained by certain regulatory requirements and restrictions.

We are subject to Bermuda regulatory constraints that will affect our ability to pay dividends on our common shares and to make other payments. Under the Bermuda Companies Act 1981, as amended (the "Companies Act"), we may declare or pay a dividend out of distributable reserves only (1) if we have reasonable grounds for believing that we are, and after the payment would be, able to pay our liabilities as they become due and (2) if the realizable value of our assets would not be less than the aggregate of our liabilities and issued share capital and share premium accounts. While we currently intend to pay dividends, if you require dividend income you should carefully consider these risks before investing in our company. For more information regarding restrictions on our ability to pay dividends, see "Dividend Policy" and "Business Regulation."

ACE has the ability to exert significant influence over our operations.

After the offering, ACE will beneficially own approximately 35% of our common shares (approximately 25% if the underwriters' option to purchase additional common shares is exercised in full). In addition, three of our directors, including our President and Chief Executive Officer, are also currently directors of ACE and two of such directors will continue to be directors of ACE following completion of this offering. Prior to completion of this offering, our Chairman, Donald Kramer, was Vice Chairman and a director of ACE. Following completion of this offering, Mr. Kramer will no longer be an executive officer or a director of ACE though he will remain employed by ACE. ACE will have the ability to exert significant influence over our policies and affairs, the election of our board of directors and any action requiring a shareholder vote, including amendments to our Bye-Laws and approval of business combinations. The interests of ACE may differ from the interests of our other shareholders in some respects. See "Relationship with ACE."

ACE may have conflicts of interest with us.

ACE has entered into agreements with us which may give rise to conflicts of interest. See "Formation Transactions" and "Relationship with ACE." In addition, ACE has invested in, and may in the future invest in, other entities engaged in or intending to engage in financial or mortgage guaranty insurance and reinsurance, some of which may compete with us. ACE has also entered into, or may in the future enter into, agreements with companies that may compete with us. We do not have any agreement or understanding with ACE regarding the resolution of potential conflicts of interest. In addition, we may not be in a position to influence ACE's decision to engage in activities that would give rise to a conflict of interest. ACE may take actions that are not in our other shareholders' best interests.

We are dependent on certain contractual arrangements with ACE and we may be unable to replace these arrangements with similar or more favorable agreements upon their expiration.

In connection with this offering and the transactions described under "Formation Transactions" and "Relationships with ACE," we and our insurance subsidiaries will enter into a series of agreements with ACE and its affiliates. See "Formation Transactions" and "Relationship with ACE." Our current board of directors will approve the terms of these agreements, but the agreements will not be reviewed or approved by the independent directors who will join our board upon completion of the offering. These agreements will become effective prior to, on or shortly after the completion of the offering. Several of these agreements will govern our relationship with ACE and its affiliates with respect to various services that ACE and its affiliates will provide to us following the completion of this offering. After the expiration of these agreements, we may not be able to replace these services and arrangements in a timely manner or on terms and conditions, including cost, as favorable as those we have with ACE. In addition, we have entered or will enter into reinsurance arrangements and other transactions with ACE with respect to the businesses that we have exited in connection with this offering. These arrangements and other transactions have been or will be approved by our current board but have not been and will not be approved by the independent directors that will join our board. See "Relationship with ACE" and "Business Other."

We will have significant reinsurance recoverables from ACE.

As previously described, we have entered or will enter into reinsurance arrangements and other transactions with ACE with respect to the businesses that we have exited in connection with this offering. As a result, we expect to have substantial reinsurance recoverables from ACE and therefore will be subject to the risk that ACE cannot or will not pay amounts owed to us under these reinsurance arrangements. In connection with this offering, we have entered, or will enter, into several reinsurance agreement with subsidiaries of ACE described under "Relationships with ACE Reinsurance Transactions" that are considered retroactive reinsurance contracts. Under applicable accounting rules related to retroactive reinsurance, the Company would not be able recognize a reinsurance recoverable on future adverse loss development, if applicable, until the Company paid the underlying loss and the Company is reimbursed by ACE. This difference in timing will cause our results of operations to otherwise be lower during the period in which we recognize a loss for adverse development on one of these agreements, notwithstanding the reinsurance, and will be recaptured through income in the period in which we actually pay the underlying loss.

Risks Related to Our Common Shares and this Offering

You should read this entire prospectus carefully and should not consider any particular statement of a former member of the proposed underwriting syndicate that was quoted in a newspaper article expressing an opinion as to the expected trading value of our common shares relative to other companies in our industry.

Prior to the effectiveness of the registration statement covering our common shares being sold in this offering, an analyst of Fox-Pitt, Kelton, Inc, a proposed member of the underwriting syndicate in this offering, was quoted in a newspaper article expressing an opinion as to the expected trading value of our common shares relative to other companies in our industry. We did not have any involvement in the preparation of the article nor did we ask the analyst to express any opinion regarding this offering or the expected trading value of our common shares. Fox-Pitt, Kelton, Inc. has elected not to participate in this offering.

An investor might assert that the newspaper article constitutes a prospectus that does not meet the requirements of the Securities Act of 1933. We urge all persons to read and base their investment decision only on this prospectus. If the newspaper article were to be found to be a prospectus that did

not meet the requirements of the Securities Act, persons who read the newspaper article and who purchased our common shares in this offering may have the right, for a period of one year from the date of the violation, to obtain recovery of the consideration paid in connection with their purchase of our common shares or, if they had already sold their common shares, attempt to recover losses resulting from their purchase of our common shares. Any liability would depend on the number of common shares purchased by the recipients.

There is no public market for our common shares and you cannot be certain that an active trading market or a specific share price will be established.

There currently is no public trading market for our common shares and it is possible that an active trading market will not develop or continue upon completion of this offering, or that the market price of our common shares will decline below the initial public offering price. Our common shares have been approved for listing on the New York Stock Exchange under the symbol "AGO." The initial public offering price per common share will be determined by agreement among us and the representatives of the underwriters, and may not be indicative of the market price of our common shares after our initial public offering.

Future sales of common shares may affect their market price and the future exercise of options will result in immediate and substantial dilution.

We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the market price of our common shares. Sales of substantial amounts of our common shares in the public market following our initial public offering, or the perception that such sales could occur, could adversely affect the market price of our common shares and may make it more difficult for you to sell your common shares at a time and price which you deem appropriate. See "Shares Eligible for Future Sale" for further information regarding circumstances under which additional common shares may be sold.

Upon completion of our initial public offering, there will be 75,000,000 common shares outstanding, approximately 35% of which will be beneficially owned by ACE (approximately 25% if the underwriters' option to purchase additional common shares is exercised in full). Moreover, an aggregate of 2,812,250 additional common shares will be issued in the form of restricted common shares or issuable upon the full exercise of employee incentive options to be issued in connection with this offering.

We, our directors, executive officers and the selling shareholders have agreed, with limited exceptions, that we and they will not directly or indirectly, without the prior written consent of Banc of America Securities LLC and Goldman, Sachs & Co., on behalf of the underwriters, offer to sell, sell or otherwise dispose of any of our common shares for a period of 180 days after the date of this prospectus. Following the consummation of this offering, ACE and its transferees will have the right to require us to register their common shares under the Securities Act of 1933 (the "Securities Act") for sale into the public markets, subject to a 180-day lock-up agreement. See "Shares Eligible for Future Sale" and "Underwriting." Upon the effectiveness of any such registration statement, all shares covered by the registration statement will be freely transferable. In addition, following the consummation of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register an aggregate of 7,500,000 common shares reserved for issuance under our 2004 Long-Term Incentive Plan. Subject to the exercise of issued and outstanding options, shares registered under the registration statement on Form S-8 will be available for sale into the public markets after the expiration of the 180-day lock-up agreements.

There are provisions in our By-Laws that may reduce or increase the voting rights of our common shares.

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote at all meetings of shareholders. However, if, and so long as, the common

shares of a shareholder are treated as "controlled shares" (as determined under section 958 of the Internal Revenue Code of 1986, as amended (the "Code")) of any U.S. Person (as defined in "Material Tax Considerations Taxation of Shareholders") and such controlled shares constitute 9.5% or more of the votes conferred by our issued shares, the voting rights with respect to the controlled shares of such U.S. Person (a "9.5% U.S. Shareholder") shall be limited, in the aggregate, to a voting power of less than 9.5%, under a formula specified in our Bye-Laws. The formula is applied repeatedly until the voting power of all 9.5% U.S. Shareholders has been reduced to less than 9.5%. In addition, our board of directors may limit a shareholder's voting rights where it deems appropriate to do so to (1) avoid the existence of any 9.5% U.S. Shareholders, and (2) avoid certain material adverse tax, legal or regulatory consequences to us or any of our subsidiaries or any shareholder or its affiliates. "Controlled shares" include, among other things, all shares of Assured Guaranty that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). Upon completion of our initial public offering, there will be 75,000,000 common shares outstanding, of which 7,125,000 common shares would constitute 9.5% of the votes conferred by our issued and outstanding shares. An investor who does not hold any of our common shares may purchase up to 7,125,000 common shares without being subject to voting cutback provisions in our Bye-Laws.

Under these provisions, certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. See "Description of Share Capital Bye-Laws." Moreover, these provisions could have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the 9.5% limitation by virtue of their direct share ownership. Our Bye-Laws provide that shareholders will be notified of their voting interests prior to any vote taken by them. See "Description of Share Capital Voting Rights and Adjustments."

As a result of any reallocation of votes, your voting rights might increase above 5% of the aggregate voting power of the outstanding common shares, thereby possibly resulting in your becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Exchange Act of 1934 (the "Exchange Act"). In addition, the reallocation of your votes could result in your becoming subject to the short-swing profit recovery and filing requirements under Section 16 of the Exchange Act.

We also have the authority under our Bye-Laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be reallocated under the Bye-Laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our sole discretion, eliminate such shareholder's voting rights.

There are provisions in our Bye-Laws that may restrict the ability to transfer common shares, and that may require shareholders to sell their common shares.

Our board of directors may decline to approve or register a transfer of any common shares (1) if it appears to the board of directors, after taking into account the limitations on voting rights contained in our Bye-Laws, that any adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders may occur as a result of such transfer (other than such as the board of directors considers to be de minimis), or (2) subject to any applicable requirements of or commitments to the New York Stock Exchange, if a written opinion from counsel supporting the legality of the transaction under U.S. securities laws has not been provided or if any required governmental approvals have not been obtained.

Our Bye-Laws also provide that if our board of directors determines that share ownership by a person may result in adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders (other than such as the board of directors considers to be de minimis), then we have the option, but not the obligation, to require that shareholder to sell to us or to third parties to whom we assign the repurchase right for fair market value the minimum number of common shares

held by such person which is necessary to eliminate such adverse tax, legal or regulatory consequences. See "Description of Share Capital."

Applicable insurance laws may make it difficult to effect a change of control of our company.

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. We have insurance subsidiaries domiciled in Maryland and New York. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity and management of the applicant's board of directors and executive officers, the acquiror's plans for the management of the applicant's board of directors and executive officers, the acquiror's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the domestic insurer. Because a person acquiring 10% or more of our common shares would indirectly control the same percentage of the stock of our U.S. insurance company subsidiaries, the insurance change of control laws of Maryland and New York would likely apply to such a transaction.

While our Bye-Laws limit the voting power of any shareholder (other than ACE) to less than 10%, there can be no assurance that the applicable regulatory body would agree that a shareholder who owned 10% or more of our common shares did not, notwithstanding the limitation on the voting power of such shares, control the applicable insurance company subsidiary.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and in particular unsolicited transactions, that some or all of our shareholders might consider to be desirable.

U.S. persons who own our common shares may have more difficulty in protecting their interests than U.S. persons who are shareholders of a U.S. corporation.

The Companies Act, under which we were incorporated, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant provisions of the Companies Act (as modified by our Bye-Laws) that differ in certain respects from similar provisions of Delaware law.

Interested Directors. Under Bermuda law and our Bye-Laws, a transaction entered into by us, in which a director has an interest, will not be voidable by us, and such director will not be liable to us for any profit realized pursuant to such transaction, provided that the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. In addition, our Bye-Laws allow a director to be taken into account in determining whether a quorum is present and to vote on a transaction in which that director has an interest following a declaration of the interest pursuant to the Companies Act, provided that the director is not disqualified from doing so by the chairman of the meeting. Under Delaware law, such transaction would not be voidable if:

the material facts concerning such interested director's relationship or interests were disclosed, or were known to the board of directors, and the board of directors in good faith authorized the transaction by the affirmative vote of a majority of the disinterested directors;

such material facts were disclosed or were known to the shareholders entitled to vote on such transaction, and the transaction was specifically approved in good faith by vote of the majority of shares entitled to vote thereon; or

the transaction was fair as to the corporation as of the time it was authorized, approved or ratified.

Under Delaware law, such interested director could be held liable for a transaction in which such director derived an improper personal benefit.

Certain Transactions with Significant Shareholders. As a Bermuda company, we may enter into certain business transactions with our significant shareholders, including asset sales, in which a significant shareholder receives, or could receive, a financial benefit that is greater than that received, or to be received, by other shareholders with prior approval from our board of directors but without obtaining prior approval from our shareholders. Amalgamations require the approval of the board of directors and, except in the case of amalgamations with and between wholly owned subsidiaries that are Bermuda companies, a resolution of shareholders approved by a majority of at least 75% of the votes cast. If we were a Delaware corporation, subject to certain exceptions, we would need prior approval from shareholders holding at least two-thirds of our outstanding common stock not owned by such interested shareholder to enter into a business combination (which, for this purpose, includes mergers and sales of all or substantially all of our assets) with an interested shareholder for a period of three years from the time the person became an interested shareholder, unless we opted out of the relevant Delaware statute.

Shareholders' Suits. The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in the name of the company to remedy a wrong done to the company where an act is alleged to be beyond the corporate power of the company, is illegal or would result in the violation of our Memorandum of Association or Bye-Laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders, or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. Our Bye-Laws provide that the company and its shareholders waive all claims or rights of action that they might have, individually or in the right of the company, against any director or officer for any act or failure to act in the performance of such director's or officer's duties, except with respect to any fraud or dishonesty of such director or officer. Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

Indemnification of Directors and Officers. Under Bermuda law and our Bye-Laws, we may indemnify our directors, officers, any other person appointed to a committee of the board and certain other persons identified in the Bye-Laws (and their respective heirs, executors or administrators) to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense incurred or sustained by such person by reason of any act done, concurred in or omitted in the conduct of our business, or in the discharge of his or her duties, provided that such indemnification shall not extend to any matter in which any of such persons is found to have committed fraud or dishonesty. Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (i) such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and (ii) with respect to any criminal action or proceeding, such director or officer had no reasonable cause to believe his conduct was unlawful. Under our Bye-Laws, we and each of our shareholders agree to waive any claim or right of action, other than those involving fraud or dishonesty, against us or any of our officers or directors or our resident representative.

See "Description of Share Capital Differences in Corporate Law" for more information on the differences between Bermuda and Delaware corporate laws.

Anti-takeover provisions in our Bye-Laws could impede an attempt to replace or remove our directors, which could diminish the value of our common shares.

Our Bye-Laws contain provisions that may entrench directors and make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. For example, these provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our common shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging takeover attempts in the future.

For example, our Bye-Laws contain the following provisions that could have such an effect:

election of our directors is staggered, meaning that the members of only one of three classes of our directors are selected each year;

shareholders have limited ability to remove directors;

if the controlled shares of any U.S. Person constitute 9.5% or more of the votes conferred by the issued shares of Assured Guaranty, the voting rights with respect to the controlled shares of such U.S. Person shall be limited, in the aggregate, to a voting power of less than 9.5%;

our board of directors may decline to approve or register the transfer of any common shares on our share register if it appears to the board of directors, after taking into account the limitations on voting rights contained in our Bye-Laws, that any adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any shareholder, would result from such transfer (other than such as our board of directors considers to be de minimis); and

subject to any applicable requirements of or commitments to the New York Stock Exchange, our directors may decline to record the transfer of any common shares on our share register unless the board of directors obtains: (i) a written opinion from counsel supporting the legality of the transaction under U.S. securities laws and (ii) approval from appropriate governmental authority if such approval is required.

We are a Bermuda company and it may be difficult for you to enforce judgments against us or against our directors and executive officers.

We are incorporated pursuant to the laws of Bermuda and our business is based in Bermuda. In addition, certain of our directors and officers reside outside the United States, and a portion of our assets and the assets of such persons may be located in jurisdictions outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon us or those persons, or to recover against us or them on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial application under Bermuda law and do not have force of law in Bermuda; however, a Bermuda court may impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

We have been advised by Conyers Dill & Pearman, our special Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the experts named herein, predicated upon the civil

liability provisions of the U.S. federal securities laws, or original actions brought in Bermuda against us or such persons predicated solely upon U.S. federal securities laws. Further, we have been advised by Conyers Dill & Pearman that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce the judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to public policy in Bermuda. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments.

Risks Related to Taxation

Our non-U.S. companies other than AGRO may be subject to U.S. tax that may have a material adverse effect on your investment and on our results of operations and our financial condition.

Assured Guaranty and AGRI are Bermuda companies; Assured Guaranty Finance Overseas and Assured Guaranty (UK) are organized under the laws of the United Kingdom; and Assured Guaranty Barbados Holdings is organized under the laws of Barbados. We intend to manage our business so that these companies operate in such a manner that none of them will be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks, and U.S. withholding tax on certain U.S. source investment income), as none of these companies should be treated as engaged in a trade or business within the United States. However, because there is considerable uncertainty as to the activities which constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service ("IRS") will not contend successfully that Assured Guaranty or any of our foreign subsidiaries is/are engaged in a trade or business in the United States. AGRO is a Bermuda company but has elected to be taxed as U.S. domestic corporation. If Assured Guaranty or any of AGRI, Assured Guaranty Finance Overseas, Assured Guaranty (UK) or Assured Guaranty Barbados Holdings were considered to be engaged in a trade or business in the United States, each such company could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case our results of operations and financial condition and your investment could be materially adversely affected. See "Material Tax Considerations Taxation of Assured Guaranty and Subsidiaries United States."

We may become subject to taxes in Bermuda after 2016, which may have a material adverse effect on our results of operations and on your investment.

The Bermuda Minister of Finance, under Bermuda's Exempted Undertakings Tax Protection Act 1966, as amended, has given Assured Guaranty, Assured Guaranty Corp., AGRI and AGRO an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then subject to certain limitations the imposition of any such tax will not be applicable to Assured Guaranty, Assured Guaranty Corp. or our Bermuda subsidiaries, or any of our or their operations, shares, debentures or other obligations until 2016. See "Material Tax Considerations Taxation of Assured Guaranty and Subsidiaries Bermuda." Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to Bermuda tax after 2016.

U.S. Persons who hold common shares will be subject to adverse tax consequences if we or any of our Subsidiaries are considered to be a Personal Holding Company ("PHC").

Assured Guranty or a subsidiary might be subject to U.S. tax on a portion of its income (which in the case of a foreign subsidiary would only include income from U.S. sources and foreign source

income effectively connected with a U.S. trade or business) if Assured Guaranty or such subsidiary is considered a personal holding company ("PHC") for U.S. federal income tax purposes. This status will depend on whether 50% or more of our shares could be deemed to be owned (pursuant to certain constructive ownership rules) by five or fewer individuals and whether 60% or more of Assured Guaranty's income, or the income of any of its subsidiaries, as determined for U.S. federal income tax purposes, consists of "personal holding company income." We believe that neither Assured Guaranty nor any of its subsidiaries should be considered a PHC. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold. However, because of the lack of complete information regarding our ultimate share ownership (i.e., as determined by the constructive ownership rules for PHCs), we cannot be certain that Assured Guaranty and/or any of its subsidiaries will not be considered a PHC or that the amount of U.S. tax that would be imposed if it were the case would be immaterial. See "Material Tax Considerations Taxation of Assured Guaranty and Subsidiaries United States Personal Holding Companies."

U.S. Persons who acquire 10% or more of our common shares may be subject to taxation under the "controlled foreign corporation" ("CFC") rules.

Each "10% U.S. Shareholder" of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and who owns shares in the CFC directly or indirectly through foreign entities on the last day of the CFC's taxable year, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. A foreign corporation is considered a CFC on any day during the taxable year of such corporation if "10% U.S. Shareholders" own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules (i.e., "constructively"), of section 958(b) of the Internal Revenue Code of 1986, as amended (the "Code")) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or the total value of all stock of such corporation. A "10% U.S. Shareholder" is a U.S. Person (as defined in "Material Tax Considerations Taxation of Shareholders United States Taxation") who owns (directly, indirectly through foreign entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. For purposes of taking into account insurance income, a CFC also includes a foreign insurance company in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation.

We believe that because of the anticipated dispersion of our share ownership, provisions in our Bye-Laws that limit voting power and other factors, no U.S. Person who owns our common shares directly or indirectly through one or more foreign entities should be treated as a 10% U.S. Shareholder of us or of any of our foreign subsidiaries. Additionally, Assured Guaranty (UK) will be considered a CFC for U.S. federal income tax purposes. Therefore, Assured Guaranty Corp. will be required to include in its gross income its share of Assured Guaranty (UK)'s subpart F income, even if such subpart F income is not distributed (these provisions are described in "Description of Share Capital"). It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. See "Material Tax Considerations Taxation of Shareholders United States Taxation Classification of Assured Guaranty or Its Foreign Subsidiaries as Controlled Foreign Corporations."

U.S. Persons who hold common shares may be subject to U.S. income taxation at ordinary income rates on their proportionate share of our "related person insurance income" ("RPII").

If the gross RPII of AGRI was to equal or exceed 20% of AGRI's gross insurance income in any taxable year and direct or indirect insureds (and persons related to such insureds) own (or are treated as owning directly or indirectly through entities) 20% or more of the voting power or value of our common shares, then a U.S. Person who owns our common shares (directly or indirectly through

foreign entities) on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes such person's pro rata share of AGRI's RPII for the entire taxable year, determined as if such RPII were distributed proportionately only to U.S. Persons at that date, regardless of whether such income is distributed. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. The amount of RPII earned by AGRI (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. holder of common shares or any person related to such holder) will depend on a number of factors, including the geographic distribution of AGRI's business and the identity of persons directly or indirectly insured or reinsured by AGRI. We believe that the gross RPII of AGRI did not in prior years of operation and will not in the foreseeable future equal or exceed 20% of its gross insurance income, and we do not expect the direct or indirect insureds of AGRI (and related persons) to directly or indirectly own 20% or more of either the voting power or value of our common shares. However, we cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond our control.

U.S. Persons who dispose of our common shares may be subject to U.S. income taxation at ordinary income tax rates in a portion of their gain, if any.

The RPII rules provide that if a U.S. Person disposes of shares in a foreign insurance corporation in which U.S. Persons own 25% or more of the shares (even if the amount of gross RPII is less than 20% of the corporation's gross insurance income and the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold), any gain from the disposition will generally be treated as ordinary income to the extent of the holder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares (whether or not such earnings and profits are attributable to RPII). In addition, such a holder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the holder. These RPII rules should not apply to dispositions of common shares because we will not ourselves be directly engaged in the insurance business; however, the RPII provisions have never been interpreted by the courts or the U.S. Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form, what changes or clarifications might ultimately be made thereto, or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts, or otherwise, might have retroactive effect. The U.S. Treasury Department has authority to impose, among other things, additional reporting requirements with respect to RPII. Accordingly, the meaning of the RPII provisions and the application thereof to Assured Guaranty and AGRI is uncertain. See "Material Tax Considerations Taxation of Shareholders United States Taxation The RPII CFC Provisions."

U.S. Persons who hold common shares will be subject to adverse tax consequences if we are considered to be a Passive Foreign Investment Company ("PFIC") for U.S. federal income tax purposes.

If Assured Guaranty is considered a PFIC for U.S. federal income tax purposes, a U.S. person who owns any shares of Assured Guaranty will be subject to adverse tax consequences, including subjecting the investor to greater tax liability than might otherwise apply and subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed, which could materially adversely affect your investment. We believe that Assured Guaranty is not, and we currently do not expect Assured Guaranty to become, a PFIC for U.S. federal income tax purposes; however, we cannot assure you that Assured Guaranty will not be deemed a PFIC by the IRS. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation. See "Material Tax

Considerations Taxation of Shareholders United States Taxation Passive Foreign Investment Companies."

U.S. Persons who hold common shares will be subject to adverse tax consequences if we or any of our subsidiaries are considered to be a Foreign Personal Holding Company ("FPHC").

Assured Guaranty and/or any of its foreign subsidiaries could be considered to be an FPHC for U.S. federal income tax purposes if more than 50% of our shares could be deemed to be owned by five or fewer individuals who are citizens or residents of the United States, and 60% or more of Assured Guaranty income, or that of its foreign subsidiaries, consists of "foreign personal holding company income," as determined for U.S. federal income tax purposes. We believe, based upon information made available to us regarding our existing shareholder base and the expected dispersion of the ownership of our shares following this offering, that neither Assured Guaranty nor any of its foreign subsidiaries should be considered an FPHC. Additionally, we intended to manage our business to minimize the possibility that we will meet the 60% income threshold. However, because of the lack of complete information regarding our ultimate share ownership, we cannot be certain that Assured Guaranty and/or any of its foreign subsidiaries will not be considered an FPHC. If Assured Guaranty or its foreign subsidiaries were considered an FPHC it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation, including subjecting the investor to greater tax liability than might otherwise apply and subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed. Similarly, if Assured Guaranty (UK) were considered an FPHC, then its parent, Assured Guaranty Corp., could be subject to additional tax under these rules. However, because Assured Guaranty (UK) will be characterized as a CFC, Assured Guaranty Corp. will instead be subject to the rules applying to CFCs. In addition, if Assured Guaranty were considered an FPHC, upon the death of any U.S. individual owning common shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the common shares which might otherwise be available under U.S. federal income tax laws. See "Material Tax Considerations Taxation of Shareholders United States Taxation Foreign Personal Holding Companies."

U.S. tax-exempt organizations that own our common shares may recognize unrelated business taxable income.

A U.S. tax-exempt organization may recognize unrelated business taxable income if a portion of our insurance income is allocated to the organization. In general, insurance income will be allocated to a U.S. tax-exempt organization if either of our Foreign Insurance Subsidiaries is a CFC and the tax-exempt shareholder is a U.S. 10% Shareholder or there is RPII and certain exceptions do not apply. Although we do not believe that any U.S. Persons should be allocated such insurance income, we cannot be certain that this will be the case. See "Material Tax Considerations Taxation of Shareholders United States Taxation Classification of Assured Guaranty or Its Foreign Subsidiaries as Controlled Foreign Corporations" and "Material Tax Considerations Taxation of Shareholders United States Taxation The RPII CFC Provisions." Potential U.S. tax-exempt investors are advised to consult their own tax advisers.

Changes in U.S. federal income tax law could materially adversely affect an investment in our common shares.

Legislation has been introduced in the U.S. Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections. In this regard, legislation has been introduced that affects the U.S. tax treatment of foreign corporations that are deemed to have "inverted" and that includes provisions that would permit the IRS to reallocate or recharacterize items of income, deduction or certain other items related to a reinsurance agreement between related parties to reflect the proper source, character or amount for each item (in contrast to current law, which only refers to source and character). Other

legislation would provide additional limits on the deductibility of interest by foreign owned U.S. companies. While there are no currently pending legislative proposals which, if enacted, would have a material adverse effect on us or our shareholders, it is possible that broader-based legislative proposals could emerge in the future that could have an adverse impact on us or our shareholders.

Additionally, the U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States, is a PFIC, or whether U.S. Persons would be required to include in their gross income the "subpart F income" or the RPII of a CFC are subject to change, possibly on a retroactive basis. There currently are no regulations regarding the application of the PFIC rules to insurance companies, and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when, or in what form such regulations or pronouncements may be implemented or made, or whether such guidance will have a retroactive effect.

The U.S. Treasury Department is considering proposals, and legislation has been introduced in the U.S. Congress, intended to limit significantly the benefits available under the income tax treaty between the United States and Barbados. Under the current treaty, dividends paid to Assured Guaranty Barbados Holdings by Assured Guaranty Overseas US Holdings are subject to a reduced withholding tax rate of 5%. However, possible changes to the treaty may result in the inability of Assured Guaranty Barbados Holdings and Assured Guaranty Overseas US Holdings to continue to enjoy the reduced rate, in which case dividends paid to Assured Guaranty Barbados Holdings by Assured Guaranty Overseas US Holdings would be subject to withholding tax at a rate of 30%. We cannot be certain if or when such changes to the treaty may be enacted, but it is possible that such changes in the future could have an adverse impact on us or our shareholders.

The impact of Bermuda's letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in Bermuda.

A number of multinational organizations, including the Organization for Economic Cooperation and Development, the European Union, the Financial Action Task Force and the Financial Stability Forum, have all recently identified some countries as not participating in adequate information exchange, engaging in harmful tax practices or not maintaining adequate controls to prevent corruption, such as money laundering activities. The Organization for Economic Cooperation and Development, which is commonly referred to as the OECD, has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD's report dated June 26, 2000, Bermuda was not listed, and continues not to be listed, as an "uncooperative tax haven" because it had previously signed a letter committing itself to eliminate harmful tax practices by the end of 2005, and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. However, it is possible that the OECD could change its view in the future and decide to list Bermuda as an uncooperative tax haven, or that one of the other multinational organizations could take a different view from the OECD and decide to recommend sanctions against Bermuda. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes which would reduce our net income.

FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus may include forward-looking statements which reflect our current views with respect to future events and financial performance. These statements include forward-looking statements both with respect to us specifically and the insurance and reinsurance industries in general. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate," "may," "will," "continue," "further," "seek," and similar words or statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to those described under "Risk Factors" above and the following:

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;

our inability to execute our new business strategy;

developments in the world's financial and capital markets that adversely affect our loss experience, the demand for our products or our investment returns;

more severe losses or more frequent losses associated with our products;

changes in regulation or tax laws applicable to us, our subsidiaries or customers;

decreased demand for our insurance or reinsurance products or increased competition in our markets;

loss of key personnel;

the effects of mergers, acquisitions and divestitures;

changes in accounting policies or practices; and

changes in general economic conditions, including interest rates and other factors.

The foregoing review of important factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this prospectus. We undertake no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements you read in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or to individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified in this prospectus that could cause actual results to differ before making an investment decision.

FORMATION TRANSACTIONS

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Assured Guaranty Corp., our financial guaranty insurance subsidiary, was organized in 1985 and has been writing financial guaranty coverages since January 1988. In April 1992, Assured Guaranty Corp.'s parent, Capital Re, became a public company. In February 1994, Capital Re entered the mortgage business with the formation of Assured Guaranty Mortgage, a New York domiciled insurance company. Shortly thereafter, AGRO was formed as a Bermuda-domiciled insurance company. In December 1999, ACE acquired Capital Re.

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Assured Guaranty was incorporated in Bermuda in August 2003 for the sole purpose of becoming a holding company for ACE's subsidiaries conducting its financial and mortgage guaranty businesses, which we refer to as the "transferred businesses," in connection with this offering. Certain of the transferred businesses were originally conducted by subsidiaries of Capital Re.

As part of the overall plan of formation of Assured Guaranty, the following formation transactions will occur:

ACE, through a U.S. subsidiary, will form Assured Guaranty US Holdings as a Delaware holding company to hold the shares of Assured Guaranty Corp. and Assured Guaranty Financial Products.

ACE's U.S. subsidiary will transfer the shares of Assured Guaranty Corp. and Assured Guaranty Financial Products to Assured Guaranty US Holdings in exchange for stock of Assured Guaranty US Holdings and a \$200 million promissory note.

AGRO has transferred 100% of the stock ownership in ACE Capital Title to ACE Bermuda in exchange for a \$39.3 million promissory note which will be repayable upon completion of this offering.

Subsequent to entering into the underwriting agreement with respect to this offering, ACE will transfer its common shares to ACE Bermuda and will cause:

its U.S. subsidiary to transfer 100% of the stock ownership in Assured Guaranty US Holdings and Assured Guaranty Finance Overseas to us in exchange for of our common shares and promissory notes of Assured Guaranty in an aggregate amount of \$1 million; and

a Bermuda subsidiary to transfer 100% of the stock of AGRI to us in exchange for of our common shares and a \$1 million promissory note of Assured Guaranty.

Each of our operating subsidiaries conducted business under names including "ACE," "AGR" and/or "Capital Re." As part of the formation transactions we are changing the names of each of these subsidiaries to the respective names set forth in this prospectus (or derivations of these names). All of these name changes may not be completed prior to the completion of this offering.

ACE and its subsidiaries will also enter into a number of transactions with our subsidiaries in order to reinsure or otherwise assume certain risks related to the businesses reported in our other segment. See "Relationship with ACE."

We will also enter into a number of other agreements with ACE and its subsidiaries that will govern certain aspects of our relationship with ACE after this offering, including services agreements under which ACE and its subsidiaries will provide certain services to us for a period of time after this offering.

After the consummation of these formation transactions and the completion of this offering, ACE will beneficially own 26,000,000 common shares, or approximately 35% of our outstanding common shares (18,650,000 common shares, or approximately 25% of our outstanding common shares if the underwriters' option to purchase additional common shares is exercised in full).

In addition, upon completion of these formation transactions and completion of this offering, unvested stock options to purchase ACE ordinary shares held by our officers or employees will immediately vest and any unvested restricted ACE ordinary shares held by these individuals will be forfeited. We expect to incur an after-tax charge in the second quarter of 2004 of approximately \$9.5 million relating to the accelerated vesting of stock options and additional compensation we are providing to our officers or employees in exchange for their forfeiture of their restricted shares. This is based upon a \$42.00 ACE stock price. See "Management Transaction from ACE to Assured Guaranty Plans."

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of common shares in this offering. The selling shareholders, which will receive all of the proceeds from this offering, will pay substantially all of the expenses of this offering.

DIVIDEND POLICY

Our board of directors currently intends to authorize the payment of a dividend of \$0.03 per common share per quarter to our shareholders of record, beginning August 2004. Any determination to pay cash dividends will be at the discretion of our board of directors, and will depend upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and any contractual restrictions on the payment of dividends and any other factors our board of directors deems relevant.

We are a holding company and have no direct operations. Our ability to pay dividends depends, in part, on the ability of our subsidiaries to pay dividends to us. Our insurance subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. In 2004 the maximum amount of distributions that our subsidiaries can pay to us under applicable laws and regulations without prior regulatory approval is approximately \$569.1 million and \$25.6 million, for AGRI and Assured Guaranty Corp., respectively. See "Business Regulation." In addition, to the extent that dividends are paid from Assured Guaranty Overseas US Holdings and Assured Guaranty US Holdings, they presently would be subject to U.S. withholding tax at a rate of 30%, subject to possible reduction to 5% under the income tax treaty between the United States and Barbados, in the case of Assured Guaranty Overseas US Holdings.

We also are subject to Bermuda regulatory constraints that will affect our ability to pay dividends on our common shares and make other payments. Under the Companies Act, we may declare or pay a dividend out of distributable reserves only (1) if we have reasonable grounds for believing that we are able, or after the applicable payment would be able, to pay our liabilities as they become due and (2) if the realizable value of our assets would thereby not be less than the aggregate of our liabilities and issued share capital and share premium accounts.

CAPITALIZATION

The table below shows our combined capitalization as of December 31, 2003 and on a pro forma basis giving effect to the formation transactions described under "Formation Transactions" and the transactions described under "Supplemental Pro Forma Condensed Combined Financial Information (Unaudited)" beginning on page F-49. Since we will not receive any of the proceeds or pay any of the expenses of this offering, the amounts shown below will not be affected by this offering.

You should read this table in conjunction with "Selected Combined Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements and related notes that are included elsewhere in this prospectus.

	As of December 31, 2003	
	Actual	Pro forma
	(\$ in millions, except per share amounts)	
Debt:		
Monthly income preferred securities of affiliate ⁽¹⁾	\$ 75.0	
Promissory note to ACE ⁽²⁾		\$ 200.0
Total debt	\$ 75.0	\$ 200.0
Shareholder's equity:		
Common shares, \$0.01 par value, 500,000,000 shares authorized, 75,937,417 shares issued and outstanding pro forma)	\$ 16.4	\$ 0.8
Additional paid-in capital	955.5	1,247.5
Unearned stock grant compensation	(5.5)	(17.8)
Retained earnings	390.0	
Accumulated other comprehensive income	81.2	81.2
Total shareholder's equity	1,437.6	1,311.6
Total capitalization	\$ 1,512.6	\$ 1,511.6
Ratio of total debt to total capitalization	5.0%	13.2%

(1) Represents \$75 million of Monthly Income Preferred Securities of Capital Re LLC. Capital Re LLC will remain a subsidiary of ACE subsequent to the formation transactions described under "Formation Transactions."

(2)

We currently anticipate issuing \$200 million of senior notes as soon as practicable following the completion of this offering to refinance the promissory note payable to ACE. We cannot assure you that this issuance of senior notes will be consummated. Moreover, as of this date, the price, timing and other terms of the proposed senior notes have not been finalized.

SELECTED COMBINED FINANCIAL INFORMATION

The selected combined statement of operations data for each of the years ended December 31, 2003, 2002, and 2001 and the selected combined balance sheet data as of December 31, 2003 and 2002 are derived from our audited combined financial statements, which have been prepared in accordance with GAAP and appear elsewhere in this prospectus. The selected combined statement of operations data for the year ended December 31, 2000 and the selected combined balance sheet data as of December 31, 2001 are derived from our audited combined financial statements, which have been prepared in accordance with GAAP. The selected combined statement of operations data for the year ended December 31, 1999 and the selected combined balance sheet data as of December 31, 2000 and 1999 are derived from our unaudited combined financial statements.

You should read the following selected combined financial information together with the other information contained in this prospectus, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,				
	2003	2002	2001	2000	1999 ⁽¹⁾
	(\$ in millions)				
Statement of operations data:					
Gross written premiums	\$ 349.2	\$ 417.2	\$ 442.9	\$ 206.0	\$ 203.5
Net written premiums ⁽²⁾	491.5	352.5	206.6	188.6	198.9
Net earned premiums	\$ 310.9	\$ 247.4	\$ 293.5	\$ 140.7	\$ 192.6
Net investment income	96.3	97.2	99.5	98.1	73.3
Net realized investment gains (losses)	5.5	7.9	13.1	8.6	(6.5)
Unrealized gains (losses) on derivative financial instruments	98.4	(54.2)	(16.3)		
Other income	1.2	3.6	2.9	2.5	5.0
Total revenues	512.3	302.0	392.9	249.9	264.4
Loss and loss adjustment expenses	144.6	120.3	177.5	30.4	201.8
Profit commission expense	9.8	8.5	9.0	10.8	11.0
Acquisition costs	64.9	48.4	51.1	49.1	42.3
Operating expenses	41.0	31.0	29.8	26.2	24.1
Goodwill amortization			3.8	3.8	
Interest expense	5.7	10.6	11.5	11.5	11.5
Total expenses	266.1	218.8	282.8	131.8	290.7
Income (loss) before income taxes	246.2	83.2	110.1	118.1	(26.4)
Provision (benefit) for income taxes	31.7	10.6	22.2	24.9	(10.6)
Net income before cumulative effect of new accounting standard	214.5	72.6	87.9	93.2	(15.7)
Cumulative effect of new accounting standard, net of taxes			(24.1)		
Net income (loss)	\$ 214.5	\$ 72.6	\$ 63.8	\$ 93.2	\$ (15.7)
	Year Ended December 31,				

Year Ended December 31,

2003	2002	2001	2000	1999
(\$ in millions)				

Balance sheet data (end of period):

Investments and cash	\$ 2,222.1	\$ 2,061.9	\$ 1,710.8	\$ 1,549.6	\$ 1,292.3
Prepaid reinsurance premiums	11.0	179.5	171.5	28.8	28.6
Total assets	2,857.9	2,719.9	2,322.1	1,913.7	1,622.2
Unearned premium reserve	625.4	613.3	500.3	444.6	396.8
Reserve for losses and loss adjustment expenses	522.6	458.8	401.1	171.0	195.4
Long-term debt	75.0	75.0	150.0	150.0	150.0
Total liabilities	1,420.2	1,462.6	1,260.4	919.2	840.7
Accumulated other comprehensive income	81.2	89.0	43.3	42.3	
Shareholder's equity	1,437.6	1,257.2	1,061.6	994.5	781.6

Per share data:⁽³⁾

Earnings per share:										
Basic	\$	2.86	\$	0.97	\$	0.85	\$	1.24	\$	(0.21)
Diluted		2.86		0.97		0.85		1.24		(0.21)
Book value per share		19.17		16.76		14.15		13.26		10.42

GAAP financial information:

Loss and loss adjustment expense ratio ⁽⁴⁾	46.5%	48.6%	60.5%	21.6%	104.8%
Expense ratio ⁽⁵⁾	37.2	35.5	30.6	61.2	40.2
Combined ratio	83.7%	84.1%	91.1%	82.8%	145.0%

Statutory financial information:

Contingency reserve ⁽⁶⁾	\$	410.5	\$	315.5	\$	228.9	\$	183.8	\$	155.1
Policyholders' surplus		980.5		835.4		833.2		786.0		464.6

Additional financial guaranty information (end of period):

Net in-force business (principal and interest)	\$	130,047	\$	124,082	\$	117,909	\$	102,744	\$	94,035
Net in-force business (principal only)		87,524		80,394		75,249		65,756		59,073
Present value of gross premiums written ⁽⁷⁾		238.8		215.5		195.0		139.5		
Net present value of installment premiums in-force ⁽⁸⁾		309.8		260.2		159.7		94.0		

- (1) ACE purchased the entities comprising Assured Guaranty as part of its purchase of Capital Re on December 30, 1999. The selected combined statement of operations data for the year ended December 31, 1999 reflects the financial position and results of operations of the entities as included in Capital Re's financial statements during those periods. The remaining selected combined financial information represents the financial position and results of operations of the entities comprising Assured Guaranty based on ACE's purchase accounting basis in the entities. The principal differences are \$94.6 million of goodwill at December 31, 1999 and related goodwill amortization of \$3.8 million in each of the years ended December 31, 2001 and 2000.
- (2) Net written premiums exceeded gross written premiums for the year ended December 31, 2003 due to \$154.8 million of return premium from two terminated ceded reinsurance contracts.
- (3) Based on 75,000,000 shares outstanding.
- (4) The loss and loss adjustment expense ratio is calculated by dividing loss and loss adjustment expenses by net earned premiums.
- (5) The expense ratio is calculated by dividing the sum of profit commission expense, acquisition costs and operating expenses by net earned premiums.
- (6) Under statutory accounting principles, financial guaranty and mortgage guaranty insurers are required to establish contingency reserves based on a specified percentage of premiums. A contingency reserve is an additional liability reserve established to protect policyholders against the effects of adverse economic developments or cycles or other unforeseen circumstances.
- (7) Represents gross premiums related to financial guaranty contracts written in the current period, including the full amount of upfront premiums received and the present value of all installment premiums, discounted at 6% per year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Segment Results of Operations" for a reconciliation to gross written premiums. Information for years prior to 2000 is unavailable.
- (8)

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Represents the present value of installment premiums on all in-force financial guaranty business, net of reinsurance ceded and ceding commissions, discounted at 6% per year. Information for years prior to 2000 is unavailable.

PRO FORMA COMBINED FINANCIAL INFORMATION

As a newly formed company, Assured Guaranty has no actual results of operations. In this prospectus, we therefore are presenting pro forma combined financial information with respect to the businesses that ACE will be transferring to us as described under "Formation Transactions," contingent upon the completion of this offering. This pro forma combined financial information is intended to illustrate the performance of our business as if this offering had been completed and we had commenced our operations as of the beginning of the year presented.

The pro forma adjustments include (a) the estimated incremental operating costs that we will incur as a stand-alone public company, primarily a holding company executive management team, board of directors' fees, directors' and officers' liability insurance, independent auditors' fees, and the cost of changes in vendors or payment terms related to certain services currently provided by ACE, (b) long-term debt included in the historical combined financial statements that will be excluded from the transactions described under "Formation Transactions," and interest thereon, (c) the estimated effects of debt expected to be issued (and related interest expense at 6% per year) and related return of capital to ACE as described under "Formation Transactions," (d) the incremental cost of separate executive stock option and restricted stock programs, and (e) related U.S. income taxes at 35%, where applicable.

We caution that the pro forma condensed combined balance sheet and pro forma condensed combined statement of operations presented herein are not indicative of the actual results that we will achieve once we commence operations. Many factors may cause our actual results to differ materially from the pro forma condensed combined balance sheet and statement of operations, including our exit from the lines of business included in our other segment, our underwriting results, the amount of our investment income, and other factors.

The following table summarizes the pro forma effects on historical combined net income for the year ended December 31, 2003 and on historical combined shareholder's equity as of December 31, 2003. Further details on the pro forma adjustments and the individual financial statement line items that will be affected are included in our supplemental pro forma condensed combined financial information (unaudited) included elsewhere in this prospectus. See "Supplemental Pro Forma Condensed Combined Financial Information (Unaudited)" beginning on page F-49.

	Year Ended December 31, 2003	As of December 31, 2003
	_____	_____
	(\$ in millions)	
Historical combined net income	\$ 214.5	
Historical combined shareholder's equity		\$ 1,437.6
(a) Estimated incremental operating costs	(14.0)	
(b) Interest on long-term debt retained by ACE	5.7	
Long-term debt retained by ACE		75.0
(c) Interest on long-term debt to be issued	(12.0)	
Return of capital to ACE		(200.0)
(d) Stock option and restricted stock programs	(1.6)	(2.8)
(e) Related income tax benefit	5.0	1.8

Pro forma net income	\$ 197.6	

Pro forma shareholder's equity		\$ 1,311.6

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

Executive Summary

We are a Bermuda-based company providing credit enhancement products to the municipal 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 three operating segments: financial guaranty direct, financial guaranty reinsurance and mortgage guaranty. For financial reporting purposes, we have a fourth segment, which we refer to as other. The other segment consists of a number of businesses that we have exited including equity layer credit protection, trade credit reinsurance, title reinsurance, life, accident and health reinsurance ("LA&H") and auto residual value reinsurance. Because we exited some of these businesses after December 31, 2003, our results of operations for the quarter ended March 31, 2004 will reflect the results of operations of these businesses through the date as of which we exited them.

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.

Our investment income is a function of our invested assets and the yield that we earn on those assets. The investment yield will be 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 gains or losses on securities in our investment portfolio 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.

We expect that our expenses will primarily consist of losses and loss adjustment expenses ("LAE"), profit commission expense, acquisition costs, operating expenses, interest expense and income taxes. Losses and LAE will be 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 that we will take have a low expected frequency of loss and generally will be investment grade at the time we accept the risk. 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 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. These costs will not vary with the amount of premiums written. We estimate that our incremental expenses in connection with becoming a public company are approximately \$14.0 million per year, primarily attributable to the salaries of our executive officers and other public company expenses. In November 2003 and February 2004, we reduced our personnel and other expenses and, as a result, expect to save approximately \$16.0 million of operating expenses per year on an annualized basis. Interest expense will be a function of outstanding debt and the contractual interest rate related to that debt. Income taxes will be a function of our profitability and the applicable tax rate in the various jurisdictions in which we do business.

In connection with this offering, we have entered, or will enter, into several reinsurance agreement with subsidiaries of ACE described under "Relationship with ACE Reinsurance Transactions" that are considered retroactive reinsurance contracts. Under applicable accounting rules related to retroactive reinsurance, the Company would not be able to recognize a reinsurance recoverable on future adverse loss development, if applicable, until the Company paid the underlying loss and the Company is reimbursed by ACE. This difference in timing will cause our results of operations to otherwise be lower during the period in which we recognize a loss for adverse development on one of these agreements, notwithstanding the reinsurance, and will be recaptured through income in the period in which we actually pay the underlying loss.

Critical Accounting Policies

Our combined financial statements include amounts that, either by their nature or due to requirements of GAAP, are determined using estimates and assumptions. The actual amounts realized could ultimately be materially different from the amounts currently provided for in our combined 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 combined 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 combined financial statements.

Reserve for Losses and Loss Adjustment Expenses

Reserve for losses and LAE includes case reserves, incurred but not reported reserves ("IBNR") and portfolio reserves.

Case reserves are established when specific insured obligations are in or near default. Case reserves represent the present value of expected future loss payments and LAE, net of estimated recoveries but before considering ceded reinsurance from insured obligations that are in or near default. Financial guaranty insurance and reinsurance case reserves are discounted at 6.0%, which is the approximate taxable equivalent yield on the investment portfolio in all periods presented.

IBNR is an estimate of the amount of losses where 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. We record IBNR for mortgage guaranty reinsurance within our mortgage guaranty segment and for title reinsurance, auto residual value reinsurance and trade credit reinsurance within our other segment.

We also record portfolio reserves for our financial guaranty insurance and reinsurance, credit derivatives and mortgage guaranty reinsurance. Portfolio reserves are established with respect to the

portion of our business for which case reserves have not been established. Portfolio reserves are established in an amount equal to the portion of actuarially estimated ultimate losses related to premiums earned to date as a percentage of total expected premiums for that in-force business. Actuarially estimated ultimate losses of financial guaranty exposures are developed considering the net par outstanding of each insured obligation, taking account of the probability of future default, the expected timing of the default and the expected recovery following default. These factors vary by type of issue (for example municipal, structured finance or corporate), current credit rating and remaining term of the underlying obligation and are principally based on historical data obtained from rating agencies. Actuarially estimated ultimate losses on mortgage guaranty reinsurance are principally determined based on the historical industry loss experience, net of expected recoveries. During an accounting period, portfolio reserves principally increase or decrease based on changes in the aggregate net amount at risk and the probability of default resulting from changes in credit quality of insured obligations, if any.

We update our estimates of loss and LAE reserves quarterly. Loss assumptions used in computing loss and LAE reserves are updated periodically for emerging experience, and any resulting changes in reserves are recorded as a charge or credit to earnings in the period such estimates are changed. Due to the inherent uncertainties of estimating loss and LAE reserves, actual experience may differ from the estimates reflected in our combined financial statements, and the differences may be material.

The following tables summarize our reserve 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 " Combined Results of Operations."

As of December 31,			
	2003	2002	2001
	(\$ in millions)		
By segment:			
Financial guaranty direct	\$ 29.9	\$ 26.0	\$ 8.9
Financial guaranty reinsurance	72.8	47.2	65.3
Mortgage guaranty	24.1	28.7	31.4
Other	395.7	356.9	295.4
Total	\$ 522.6	\$ 458.8	\$ 401.1
As of December 31,			
	2003	2002	2001
	(\$ in millions)		
By type of reserve:			
Case basis	\$ 128.9	\$ 122.1	\$ 53.5
IBNR	319.0	281.1	269.0
Portfolio	74.6	55.6	78.5
Total	\$ 522.6	\$ 458.8	\$ 401.1

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As of December 31, 2003

	Financial Guaranty Direct	Financial Guaranty Reinsurance	Mortgage Guaranty	Other	Total
(\$ in millions)					
<i>By segment and type of reserve:</i>					
Case basis	\$ 2.0	\$ 35.3	\$ 1.8	\$ 89.8	\$ 128.9
IBNR			13.1	305.9	319.0
Portfolio	27.9	37.5	9.2		74.6
Total	\$ 29.9	\$ 72.8	\$ 24.1	\$ 395.7	\$ 522.6

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

	As of December 31, 2003	
Ratings	Net Par Outstanding	% of Net Par Outstanding
(\$ in billions)		
AAA	\$ 26.2	29.9%
AA	17.6	20.1
A	29.9	34.2
BBB	12.3	14.1
Below investment grade	1.5	1.7
Total exposures	\$ 87.5	100.0%

Our risk management 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; losses likely, case reserve established); Category 4 (claim paid or incurred). Credits that are not included in the closely monitored credit list are categorized as fundamentally sound, normal risk. See "Business Risk Management" for further definition and discussion of closely monitored credits. The following table provides financial guaranty net par outstanding by credit monitoring category as of December 31, 2003:

	As of December 31, 2003	
Description:	Net Par Outstanding	% of Net Par Outstanding
(\$ in millions)		
Fundamentally sound, normal risk	\$ 85,794.8	98.0%
Closely monitored:		
Category 1	1,309.5	1.5
Category 2	251.8	0.3
Category 3	131.1	0.1
Category 4	36.8	0.0
Sub total	1,729.2	2.0
Total	\$ 87,524.0	100%

As of December 31, 2003

Valuation of Derivative Financial Instruments

On January 1, 2001, we adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), which established accounting and reporting standards for derivative instruments. FAS 133 requires recognition of all derivatives on the balance sheet at fair value.

We issue credit derivative financial instruments, including 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 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. When we determine that a loss on a derivative contract is probable, we establish reserves for the loss. 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 loss 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 are valued using third-party market quotes. 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 combined financial statements, and the differences may be material.

The fair value adjustment for the year ended December 31, 2003 was a \$98.4 million gain as compared to a \$54.2 million loss for the year ended December 31, 2002. The change in fair value is related to many factors but primarily due to changes in credit spreads. For example, the 2003 gain of \$98.4 million primarily relates to an approximate 60-65% tightening in investment grade corporate spreads over that period, and the 2002 loss of \$54.2 million primarily relates to an approximate 20-25% widening.

Valuation of Investments

As of December 31, 2003, 2002 and 2001, we had total investments of \$2.2 billion, \$2.1 billion and \$1.7 billion, respectively. The fair values of all of our investments are calculated from independent market quotations.

As of December 31, 2003, approximately 94% of our investments were long-term fixed maturity securities, and our portfolio had an average duration of 5.4 years. 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. The following table summarizes the estimated change in fair value net of related income taxes on our investment portfolio as of December 31, 2003 based upon assumed changes in interest rates:

Change in Interest Rates	Estimated Increase (Decrease) in Fair Value
	(\$ in millions)
300 basis point rise	\$ (244.7)
200 basis point rise	(167.9)
100 basis point rise	(86.3)
100 basis point decline	76.0
200 basis point decline	155.2
300 basis point decline	230.0

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 shareholder's 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.

Other than temporary declines in the fair value of fixed maturity securities were \$0.1 million and \$5.8 million for the years ended December 31, 2003 and 2002, respectively. The 2002 impairment loss as a percentage of the total fair value of our investments at the beginning

of 2002 was 0.3%.

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 December 31, 2003		As of December 31, 2002	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(\$ in millions)				
Municipal securities				
0-6 months	\$ 56.2	\$ (1.0)	\$ 8.6	
7-12 months	8.3	(0.2)	0.2	
Greater than 12 months			0.7	\$ (0.1)
	<u>64.5</u>	<u>(1.2)</u>	<u>9.5</u>	<u>(0.1)</u>
Corporate securities				
0-6 months	35.1	(0.5)		
7-12 months	9.5	(0.7)	4.7	(1.8)
Greater than 12 months			4.7	(0.2)
	<u>44.6</u>	<u>(1.2)</u>	<u>9.4</u>	<u>(2.0)</u>
U.S. Government obligations				
0-6 months	16.2	(0.2)		
7-12 months				
Greater than 12 months				
	<u>16.2</u>	<u>(0.2)</u>		
Mortgage and asset-backed securities				
0-6 months	125.2	(1.6)	18.1	(0.1)
7-12 months	29.8	(0.5)	12.0	(0.1)
Greater than 12 months			0.6	
	<u>155.0</u>	<u>(2.1)</u>	<u>30.7</u>	<u>(0.2)</u>
Total	<u>\$ 280.3</u>	<u>\$ (4.7)</u>	<u>\$ 49.6</u>	<u>\$ (2.3)</u>

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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 December 31, 2003		As of December 31, 2002	
	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	\$ 9.2	\$ (0.1)		
Due after five years through ten years	10.6	(0.1)		
Due after ten years	44.7	(1.0)	\$ 9.5	\$ (0.1)
	<u>64.5</u>	<u>(1.2)</u>	<u>9.5</u>	<u>(0.1)</u>
Corporate securities				
Due in one year or less			0.3	
Due after one year through five years	10.2	(0.1)	5.3	
Due after five years through ten years	8.5	(0.4)		
Due after ten years	25.9	(0.7)	3.8	(2.0)
	<u>44.6</u>	<u>(1.2)</u>	<u>9.4</u>	<u>(2.0)</u>
U.S. Government obligations				
Due in one year or less				
Due after one year through five years	0.1			
Due after five years through ten years	9.3			
Due after ten years	6.8	(0.2)		
	<u>16.2</u>	<u>(0.2)</u>		
Mortgage and asset-backed securities	155.0	(2.1)	30.7	(0.2)
Total	<u>\$ 280.3</u>	<u>\$ (4.7)</u>	<u>\$ 49.6</u>	<u>\$ (2.3)</u>

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The following table summarizes, for all securities sold at a loss through December 31, 2003 and 2002, 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	Year Ended December 31,			
	2003		2002	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(\$ in millions)				
Corporate securities				
0-6 months	\$ 12.4	\$ (0.4)	\$ 51.8	\$ (2.0)
7-12 months			14.5	(0.7)
Greater than 12 months				
	12.4	(0.4)	66.3	(2.7)
U.S. Government securities				
0-6 months	9.4	(0.4)	20.5	(0.1)
7-12 months				
Greater than 12 months				
	9.4	(0.4)	20.5	(0.1)
Mortgage and asset-backed securities				
0-6 months	5.7	(0.1)	39.6	(0.4)
7-12 months				
Greater than 12 months				
	5.7	(0.1)	39.6	(0.4)
Total	\$ 27.5	\$ (0.9)	\$ 126.4	\$ (3.2)

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 years ended December 31, 2003, 2002 and 2001, approximately 34.0%, 50.8% and 61.9%, respectively, of our gross written premiums were received upfront, and 66.0%, 49.2% and 38.1%, respectively, were received in installments. 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 reserve represents the portion of premiums written that is applicable to the unexpired amount at risk of insured bonds.

In our reinsurance businesses, we estimate the ultimate written and earned premiums to be received 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 by ceding companies supplemented by our own estimates of premium for which ceding company reports have not yet been received. As of December 31, 2003, the assumed premium estimate and related

ceding commissions included in our combined financial statements are \$31.7 million and \$9.1 million, respectively. Key assumptions used to arrive at management's best estimate of assumed premium 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. For the years ended December 31, 2003, 2002, and 2001, we recorded a provision for doubtful accounts related to our premium receivable of \$0 million, \$0.3 million and \$0 million, respectively.

Deferred Acquisition Costs

Acquisition costs incurred that vary with and are directly related to the production of new business are deferred. These costs include direct and indirect expenses such as ceding commissions, brokerage expenses and the cost of underwriting and marketing personnel. As of December 31, 2003 and 2002, we had deferred acquisition costs of \$178.7 million and \$157.3 million, respectively. Ceding commissions paid to primary insurers are the largest component of deferred acquisition costs, constituting 80.2% and 77.7% of total deferred acquisition costs as of December 31, 2003 and 2002, 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 periodically conduct a study to determine which operating costs vary with, and are directly related to, the acquisition of new business and qualify for deferral. Acquisition costs other than those associated with our credit derivative products are deferred and amortized in relation to earned premiums. 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.

Deferred Income Taxes

As of December 31, 2003 and 2002, we had a net deferred income tax liability of \$55.6 million and \$43.0 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, reserve 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 is more likely than not to be realized.

As of December 31, 2003, AGRO had a stand-alone NOL of \$89.0 million, which is available to offset its future U.S. taxable income. Substantially all of this NOL will be available until 2017, and the remainder will be available until 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 \$89.0 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 and will be adjusted to the extent actual taxable income differs from estimates of future taxable income that may be used to realize NOLs.

Combined Results of Operations

The following table presents summary combined statement of operations data for the years ended December 31, 2003, 2002 and 2001.

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Revenues:			
Gross written premiums	\$ 349.2	\$ 417.2	\$ 442.9
Net written premiums	491.5	352.5	206.6
Net earned premiums	\$ 310.9	\$ 247.4	\$ 293.5
Net investment income	96.3	97.2	99.5
Net realized investment gains	5.5	7.9	13.1
Unrealized gains (losses) on derivative financial instruments	98.4	(54.2)	(16.3)
Other income	1.2	3.6	2.9
Total revenues	512.3	302.0	392.9
Expenses:			
Loss and loss adjustment expenses	144.6	120.3	177.5
Profit commission expense	9.8	8.5	9.0
Acquisition costs	64.9	48.4	51.1
Operating expenses	41.0	31.0	29.8
Other expenses	5.7	10.6	15.3
Total expenses	266.1	218.8	282.8
Income before provision (benefit) for income taxes	246.2	83.2	110.1
Provision for income taxes	31.7	10.6	22.2
Net income before cumulative effect of new accounting standard	214.5	72.6	87.9
Cumulative effect of new accounting standard, net of taxes			(24.1)
Net income	\$ 214.5	\$ 72.6	\$ 63.8
Underwriting gain (loss) by segment:			
Financial guaranty direct	\$ 29.5	\$ 3.6	\$ 17.0
Financial guaranty reinsurance	24.8	39.6	26.0
Mortgage guaranty	11.4	16.2	14.6
Other	(15.2)	(20.3)	(31.5)
Total	\$ 50.5	\$ 39.2	\$ 26.1

The summary combined statements of operations provided above are based on historical financial statement information. This information is not necessarily representative of the net income we will have going forward. We organize our business around four financial reporting segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. There are a number of lines of business that we have exited, 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, LA&H and auto residual value reinsurance.

Summary of Significant Affiliate Transactions

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Included in our results of operations are three significant transactions entered into with affiliated entities (see "Relationship with ACE Reinsurance Transactions"):

AGRI Affiliate Reinsurance Transaction: On December 31, 2001, AGRI entered into an excess of loss reinsurance contract with a subsidiary of ACE. Under the terms of this reinsurance

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contract, AGRI paid \$125.0 million for 25 years of reinsurance coverage. This coverage provided a \$400.0 million aggregate limit, a \$50.0 million per risk limit and a \$5.0 million per risk deductible. The cost and benefit from this contract are included in the other segment. We terminated this agreement effective December 31, 2003 and recorded a receivable of \$131.9 million consisting of ceded unearned premium of \$115.0 million and reinsurance recoverables on paid losses of \$16.9 million. There was no earnings impact from the termination of this contract.

Assured Guaranty Corp. Affiliate Reinsurance Transaction: Assured Guaranty Corp. entered into an excess of loss reinsurance contract with a subsidiary of ACE, effective January 1, 2001. Under the terms of this reinsurance contract, Assured Guaranty Corp. paid \$27.5 million in 2001 and \$25.0 million in 2002 for ten years of reinsurance coverage. This coverage provided a \$150.0 million aggregate limit. The cost and benefit from this contract are included in the other segment. We terminated this agreement effective June 30, 2003 and received a cash payment of \$53.8 million, consisting of ceded unearned premium of \$39.8 million, reinsurance recoverables on paid losses of \$12.5 million and profit commissions receivable of \$1.5 million. There was no earnings impact from the termination of this contract.

AGRO Affiliate Reinsurance Transaction: AGRO entered into a significant reinsurance transaction with an affiliate of ACE, which it fully ceded to a subsidiary of ACE, both effective July 1, 2001. This transaction is reported in the other segment and resulted in both gross and ceded premiums written of \$6.0 million, \$11.7 million and \$73.8 million in 2003, 2002 and 2001, respectively. Accordingly, this transaction had no effect on our net written premiums or our net income.

Net Income

Net income was \$214.5 million, \$72.6 million and \$63.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. The increase of \$141.9 million in 2003 as compared with 2002 is primarily due to the significant increase in unrealized gains on derivative financial instruments due primarily to the tightening of credit spreads on our derivative financial instruments. Unrealized gains on derivative financial instruments increased from an after-tax loss of \$48.9 million in 2002 to an after-tax gain of \$83.4 million in 2003, an increase of \$132.3 million. In addition, underwriting income increased from \$39.2 million in 2002 to \$50.5 million in 2003. Most of this increase is attributable to the growth and improved profitability of the financial guaranty direct segment. The \$8.8 million increase in net income for 2002 as compared to 2001 is primarily related to improved underwriting results in our financial guaranty reinsurance, mortgage guaranty and other segments, offset by the decline in underwriting gain in the financial guaranty direct segment.

Gross Written Premiums

	Year Ended December 31,		
	2003	2002	2001
Gross Written Premiums			
	(\$ in millions)		
Financial guaranty direct	\$ 71.2	\$ 47.4	\$ 46.0
Financial guaranty reinsurance	168.7	84.6	70.4
Mortgage guaranty	24.4	47.6	47.4
Other	84.9	237.6	279.1
Total	\$ 349.2	\$ 417.2	\$ 442.9

Gross written premiums for the year ended December 31, 2003 were \$349.2 million compared to \$417.2 million the year ended December 31, 2002. In 2003, we achieved strong results in the financial guaranty reinsurance segment and financial guaranty direct segment as gross written premiums increased \$84.1 million, or 99.4%, and \$23.8 million, or 50.2%, respectively, over 2002. The increase in

the financial guaranty reinsurance segment was mainly driven by the municipal finance reinsurance business, which increased due to large cessions on European project finance transactions as well as an increase in the volume of new issues of insured municipal bonds. In the financial guaranty direct segment, the growth in gross written premiums was mainly attributable to an increase in structured finance premiums. These gains were offset by a decline in gross written premiums of \$152.7 million in the other segment and a \$23.2 million reduction in the mortgage guaranty segment. Gross written premiums in the other segment decreased \$152.7 million due to our decision to cease writing new equity layer credit protection business in 2003. The decline in gross written premiums in the mortgage guaranty segment in 2003 is primarily due to the continued runoff of our quota share business.

Gross written premiums for the year ended December 31, 2002 were \$417.2 million, a decrease of \$25.7 million, or 5.8%, compared to the year ended December 31, 2001. This decrease is primarily due to large nonrecurring transactions recognized in 2001, the AGRO Affiliate Reinsurance Transaction and a large auto residual value reinsurance transaction, both of which impact the other segment. This decline was partially offset by increases in the other financial guaranty reinsurance segment as well as modest increases in the mortgage guaranty and financial guaranty direct segments.

Net Written Premiums

Net Written Premiums	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Financial guaranty direct	\$ 70.0	\$ 46.3	\$ 43.5
Financial guaranty reinsurance	162.1	82.6	68.6
Mortgage guaranty	24.4	47.6	47.6
Other	235.0	175.9	46.9
Total	\$ 491.5	\$ 352.5	\$ 206.6

Net written premiums for the year ended December 31, 2003 increased by \$139.0 million, despite the 16.3% decline in gross written premiums. This increase is due to the termination of the Assured Guaranty Corp. Affiliate Reinsurance Transaction at June 30, 2003 and the AGRI Affiliate Reinsurance Transaction at December 31, 2003, described previously in the "Summary of Significant Affiliate Transactions," reflected in the other segment. The termination of these contracts contributed \$154.8 million in net written premiums for the year ended December 31, 2003. Excluding the other segment, growth in net written premiums in the financial guaranty reinsurance, financial guaranty direct and mortgage segments was consistent with the growth of gross written premiums.

For the year ended December 31, 2002, net written premiums were \$352.5 million, an increase of \$145.9 million, or 70.6%, compared to the year ended December 31, 2001, despite a \$25.7 million, or 5.8%, decline in gross written premiums for 2002 compared to 2001. Net written premiums grew at a faster pace than gross written premium primarily due to the purchase of reinsurance in 2001 (see "Summary of Significant Affiliate Transactions"), reflected in the other segment. Net written premiums in the other segment increased \$129.0 million due to cessions of \$125.0 million related to the AGRI Affiliate Reinsurance Transaction in 2001, as well as positive trends in the equity layer credit protection line in 2002 compared to 2001. Excluding the other segment, net written premiums increased consistent with the increase in gross written premiums in the financial guaranty reinsurance, financial guaranty direct and mortgage guaranty segments.

Net Earned Premiums

Net Earned Premiums	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Financial guaranty direct	\$ 70.2	\$ 43.9	\$ 30.0
Financial guaranty reinsurance	92.9	79.3	62.2
Mortgage guaranty	27.6	45.3	39.7
Other	120.2	78.9	161.6
Total	\$ 310.9	\$ 247.4	\$ 293.5

Net earned premiums for the year ended December 31, 2003 increased by \$63.5 million, or 25.7%, compared to the year ended December 31, 2002. Net earned premiums increased \$26.3 million, \$13.6 million and \$41.3 million in the financial guaranty direct segment, financial guaranty reinsurance segment and the other segment, respectively. The increase of \$26.3 million in the financial guaranty direct segment is primarily due to the growth in our structured finance portfolio. In the financial guaranty reinsurance segment, net earned premiums increased from \$79.3 million to \$92.9 million due to municipal finance refunding activity and an increase in par insured outstanding. The increase in the other segment is mainly attributable to our decision to exit the LA&H business, which resulted in a reduction in earned premiums of \$32.2 million in 2002 as a result of transferring this book of business to an affiliate of ACE. Net earned premiums declined in the mortgage segment from \$45.3 million to \$27.6 million related to a reduction in our treaty book of business.

Net earned premiums decreased by \$46.1 million, or 15.7%, for the year ended December 31, 2002 compared to the year ended December 31, 2001. Net earned premiums in 2002 grew in all segments except the other segment, which decreased \$82.7 million. Net earned premiums increased 46.3%, 27.5% and 14.1% in the financial guaranty direct segment, financial guaranty reinsurance segment and mortgage guaranty segment, respectively. The increase in the financial guaranty direct segment is attributable to an increase in structured finance premiums. In 2002, net earned premiums increased in the financial guaranty reinsurance segment largely due to municipal finance refunding activity. The growth in net premiums earned in these segments was partially offset by a \$82.7 million decrease in the other segment. This decrease included an \$89.0 million decrease in the auto residual value reinsurance business and a \$56.8 million decrease in the LA&H business, partially offset by a \$63.0 million increase in the equity layer credit protection business.

Net Investment Income

Net investment income was \$96.3 million, \$97.2 million and \$99.5 million for the years ended December 31, 2003, 2002 and 2001, respectively. Net investment income has remained relatively level across the periods as declining investment yields offset increasing investment balances. Pre-tax yields to maturity were 4.9%, 5.5% and 5.9% for the years ended December 31, 2003, 2002 and 2001, respectively. The decrease in investment yields is due to declining market interest rates as well as a more conservative investment profile in AGRI. Over this period the yield to maturity of the Lehman Aggregate Index, a commonly used benchmark for investment yields, declined from 5.7% as of December 31, 2001 to 4.2% as of December 31, 2003.

Net Realized Investment Gains

Net realized investment gains, principally from the sale of fixed maturity securities, were \$5.5 million, \$7.9 million and \$13.1 million for the years ended December 31, 2003, 2002 and 2001, respectively, net of \$0.1 million, \$5.8 million and \$9.3 million of other than temporary impairment losses for the years ended December 31, 2003, 2002 and 2001, respectively. Net realized investment gains, net of related income taxes, were \$3.8 million, \$5.8 million and \$9.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Unrealized Gains (Losses) on Derivative Financial Instruments

Derivative financial instruments are recorded at fair value as required by FAS 133. However, as explained under "Critical Accounting Policies," we record part of the change in fair value in the loss and LAE reserves as well as unearned premium reserve. The fair value adjustment for the year ended December 31, 2003 was a \$98.4 million gain as compared to a \$54.2 million loss for the same period in 2002. The change in fair value is related to many factors but primarily due to tightening credit spreads. For example, the 2003 gain of \$98.4 million primarily corresponds to an approximate 60-65% tightening in investment grade corporate spreads over that period, and the 2002 loss of \$54.2 million corresponds to an approximate 20-25% widening of such spreads.

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

Loss and Loss Adjustment Expenses	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Financial guaranty direct	\$ 16.3	\$ 25.4	\$ 3.0
Financial guaranty reinsurance	25.7	5.3	5.1
Mortgage guaranty	(0.7)	8.9	6.2
Other	103.3	80.6	163.2
Total	\$ 144.6	\$ 120.3	\$ 177.5

Loss and loss adjustment expenses for the year ended December 31, 2003 were \$144.6 million, an increase of \$24.3 million, or 20.2%, compared to the year ended December 31, 2002. The increase is attributable to a \$20.4 million increase in the financial guaranty reinsurance segment and a \$22.7 million increase in the other segment, and is partly offset by a \$9.1 million decrease in the financial guaranty direct segment and \$9.6 million decrease in the mortgage guaranty segment. Loss and loss adjustment expenses increased in the financial guaranty reinsurance segment due to an increase in case activity associated with CDOs assumed through treaties. The increase in loss and loss adjustment expenses for the other segment is primarily due to the increase in a case reserve related to one auto residual value reinsurance contract. The \$9.6 million decline in loss and loss adjustment expenses in the mortgage guaranty segment is due to favorable loss development on older contracts. The \$9.1 million decline in the financial guaranty direct segment is due to the improved credit environment as compared to 2002. See "Segment Results of Operations" for further explanations of these changes.

Loss and loss adjustment expenses for the year ended December 31, 2002 were \$120.3 million, a decrease of \$57.2 million, or 32.2%, compared to the year ended December 31, 2001. The \$57.2 million reduction in 2002 compared to 2001 is due to an increase in loss and loss adjustment expenses in the financial guaranty direct and mortgage guaranty segments due to a deteriorating credit environment, offset by an \$82.6 million decrease in the other segment due to the change in the mix of business, as we exited the auto residual value reinsurance and LA&H businesses. See " Segment Results of Operations" for further explanations of these changes.

Profit Commission Expense

Profit commissions allow the reinsured to share favorable experience on a reinsurance contract due to lower than expected losses. Profit commissions primarily relate to our mortgage guaranty segment. Profit commissions for the years ended December 31, 2003, 2002 and 2001 were \$9.8 million, \$8.5 million and \$9.0 million, respectively. In 2003 profit commission expense related to the mortgage segment declined due to a reduction in net earned premiums, offset by an increase in profit commission related to the financial guaranty reinsurance segment. Profit commission expense declined from \$9.0 million in 2001 to \$8.5 million in 2002 as a result of higher losses resulting in lower profit commission expense in the mortgage segment.

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 are amortized in relation to earned premium. For the years ended December 31, 2003, 2002 and 2001, acquisition costs were \$64.9 million, \$48.4 million and \$51.1 million, respectively. The increase of \$16.5 million in 2003 is consistent with the increase in earned premium. In 2002, acquisition costs decreased by \$2.7 million, primarily due to the transfer of our LA&H business to an affiliate. Acquisition costs as a percentage of net earned premiums were 20.9%, 19.6% and 17.4% in 2003, 2002 and 2001, respectively.

Operating Expenses

For the years ended December 31, 2003, 2002 and 2001, operating expenses were \$41.0 million, \$31.0 million and \$29.8 million, respectively. The increases are principally due to changes in staffing levels and other resources as we focused on growing the financial guaranty direct segment.

Other Expenses

For the years ended December 31, 2003, 2002 and 2001, other expenses were \$5.7 million, \$10.6 million and \$15.3 million, respectively. The \$4.9 million decrease in 2003 is due to the reduction in interest expense related to the repayment of \$100.0 million of debt in 2002. The decrease in 2002 is principally due to the absence of goodwill amortization, which was \$3.8 million in 2001 and 2000. Effective January 1, 2002, goodwill is no longer amortized.

Income Tax

For the years ended December 31, 2003, 2002 and 2001, income tax expense was \$31.7 million, \$10.6 million and \$22.2 million, respectively. Our effective tax rate was 12.9%, 12.7% and 20.2% for the years ended December 31, 2003, 2002 and 2001, 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 with 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.

Cumulative Effect of New Accounting Standard

On January 1, 2001, we adopted FAS 133, "Accounting for Derivative Instruments and Hedging Activities." FAS 133 requires that all derivatives be recognized in the combined balance sheet at fair value, with changes in fair value reflected in earnings. In 2001, we recorded an expense of \$24.1 million for the cumulative effect of adopting this standard, net of \$12.3 million of deferred income taxes.

Segment Results of Operations

Our financial results include three operating segments: financial guaranty direct, financial guaranty reinsurance and mortgage guaranty. For financial reporting purposes, we have a fourth segment, which we refer to as other. As we implement our new mortgage guaranty strategy, we will consider whether to continue to report the results of our mortgage guaranty business as a separate segment. Management uses underwriting gains and losses as the primary measure of each segment's financial performance. Underwriting gain (loss) includes net premiums earned, loss and loss adjustment expenses, acquisition expenses, profit commission expense 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 gains and losses, unrealized gains and losses on derivative financial instruments, goodwill amortization 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. Our financial guaranty direct segment began as a means to diversify our financial guaranty business's historical focus on reinsurance. We have been building our market presence in the financial guaranty direct market over the past seven years, beginning with our single-name credit default swap business in 1996. In 2000, we expanded our direct product offerings to include credit protection on CDOs and asset-backed and mortgage-backed securities, and began to build a primary monoline infrastructure, beginning a licensing program in the United States.

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 municipal 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.

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

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Gross written premiums	\$ 71.2	\$ 47.4	\$ 46.0
Net written premiums	70.0	46.3	43.5
Net earned premiums	\$ 70.2	\$ 43.9	\$ 30.0
Loss and loss adjustment expenses	16.3	25.4	3.0
Profit commission expense		(0.1)	(0.1)
Acquisition costs	2.8	2.4	0.9
Operating expenses	21.6	12.5	9.2
Underwriting gain	\$ 29.5	\$ 3.6	\$ 17.0
Losses and loss adjustment expense ratio	23.2%	57.9%	10.0%
Expense ratio	34.8	33.7	33.3
Combined ratio	58.0%	91.6%	43.3%

For the years ended December 31, 2003, 2002 and 2001, the financial guaranty direct segment contributed \$71.2 million, \$47.4 million and \$46.0 million to gross written premiums, respectively, which represent an increase of \$23.8 million and \$1.4 million in 2003 and 2002, respectively. Of the \$23.8 million increase in 2003, \$21.1 million was written as credit derivatives and \$2.7 million was written as financial guaranty insurance, which we began writing in 2003. We began writing financial guaranty insurance in 2003, writing \$1.5 million of municipal finance business and \$1.2 million of structured finance business, of which \$1.1 million was home equity loan securitizations issued in the public markets.

Gross and net written premiums in this segment generally have been received on an installment basis, reflecting our focus on the structured finance and credit derivatives markets. In 2003, 2002 and 2001, installment premiums represented 94.9%, 95.6% and 67.8% of gross written premiums in this segment, or \$67.6 million, \$45.3 million and \$31.2 million, respectively. The contribution of upfront premiums to gross written premiums were \$3.6 million, \$2.1 million and \$14.8 million in 2003, 2002 and 2001, respectively. Although premiums are typically received on an installment basis on credit derivatives, in 2001, \$14.8 million of upfront premiums were written, primarily related to two transactions. Gross written premiums in 2002 were flat compared to 2001 due to these transactions.

For the years ended December 31, 2003, 2002 and 2001, net written premiums were \$70.0 million, \$46.3 million and \$43.5 million, respectively. The growth in net written premiums is primarily due to growth in gross written premiums as we typically retain a substantial portion of this business.

Management uses the "present value of gross premiums written" to evaluate new business production for our financial guaranty business, including both financial guaranty insurance and reinsurance and credit derivative contracts. This measure consists of upfront premiums plus the present value of installment premiums (discounted at 6%) for contracts entered into during the reporting period. Management uses this measure to provide a meaningful summary of new business production in our financial guaranty direct and financial guaranty reinsurance segments, as both upfront and installment premiums are included in our revenues. The present value of gross premiums written differs from gross written premiums as shown in our financial statements and should not be considered as a substitute for gross written premiums determined in accordance with GAAP.

Management also uses the "net present value of installment premiums in-force" in our financial guaranty direct and financial guaranty reinsurance segments as a measure of our future premiums on our in-force book of installment premium business. It is calculated net of reinsurance ceded and using a discount rate of 6%. There is no GAAP measure that is comparable to the net present value of installment premiums in-force.

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The following table reconciles gross written premiums as presented in our statement of operations to the present value of gross premiums written and presents the net present value of installment premiums in-force, as well as gross par written and net par outstanding:

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Gross written premiums	\$ 71.2	\$ 47.4	\$ 46.0
Less installment premiums included above	(67.6)	(45.3)	(31.2)
Upfront gross premiums	3.6	2.1	14.8
Present value of installment premiums related to contracts written in current period	90.2	93.9	101.8
Present value of gross premiums written	\$ 93.8	\$ 96.0	\$ 116.6
Gross par written:			
Municipal finance	\$ 48	\$ 113	\$ 209
Structured finance	6,980	6,734	7,481
Total	\$ 7,028	\$ 6,847	\$ 7,690
As of period end:			
Net present value of installment premiums in-force	\$ 217.1	\$ 187.3	\$ 113.4
Net present value of installment premiums in-force, net of related income taxes	151.9	134.8	77.0
Net par outstanding:			
Municipal finance	\$ 2,138	\$ 1,869	\$ 1,873
Structured finance	21,561	18,575	13,649
Total	\$ 23,699	\$ 20,444	\$ 15,522

The present value of gross premiums written in a period is the result of the gross par written, the annual premium rate charged and the duration of the underlying security. The annual premium rate fluctuates based on credit spreads, asset category, credit rating and other security-specific characteristics, as well as market conditions, competition and other broader economic and market factors. For the years ended December 31, 2003, 2002 and 2001, the present value of gross premiums written was \$93.8 million, \$96.0 million and \$116.6 million, respectively. In 2003, the present value of gross premiums written declined 2.3%, although gross par written grew 2.6%, due to lower credit spreads in the market as well as a change in the mix of asset categories we underwrote. For example, during 2003 we stopped underwriting single name credit default swaps, underwriting only \$150 million of gross par, whereas we underwrote \$547 million and \$422 million of gross par in 2002 and 2001, respectively. In 2002, the present value of gross premiums written declined 17.7%, compared to an 11% decline in gross par written, from \$7.7 billion to \$6.8 billion. In the challenging credit environment we were more stringent in our underwriting standards and pricing, which reduced overall volumes in 2002.

The change in net present value of installment premiums in-force is a measurement used by management to evaluate the future net earned premium on business that has already been underwritten. The net present value of installment premiums in-force was \$217.1 million, \$187.3 million and \$113.4 million as of December 31, 2003, 2002 and 2001, respectively. In 2003, the net present value of installment premiums in-force was up 15.9% versus the prior year, reflecting the addition of \$90.2 million in present value of installment premiums related to contracts written in the period, partially offset by reported net earned premiums of \$70.2 million. In 2002, the net present value of installment premiums in-force was up 65.2% to \$187.3 million, reflecting the strong level of production

related to contracts written in the period, compared to a relatively low starting level, as we began to expand our financial guaranty direct operations.

Net earned premiums for the years ended December 31, 2003, 2002 and 2001, were \$70.2 million, \$43.9 million and \$30.0 million, respectively, an increase of \$26.3 million, or 59.9%, in 2003, and \$13.9 million, or 46.3%, in 2002. The increase in net earned premiums across these periods reflects the amortization of upfront premiums and the growing volume of installment premiums generated in the growing book of contracts, as evidenced by the increase in net par outstanding and net present value of installment premiums in-force. Net par outstanding grew from \$15.5 billion at year-end 2001 to \$20.4 billion at year-end 2002, up 31.7%, to \$23.7 billion at year-end 2003, up 15.9%.

Loss and loss adjustment expenses were \$16.3 million, \$25.4 million and \$3.0 million, respectively, for the years ended December 31, 2003, 2002 and 2001. Our loss and loss adjustment expenses are affected by changes in the mix, size and credit trends in our book of business, and by changes in our reserves for loss and loss adjustment expenses for prior periods. Our loss ratio is principally affected by the mix of business in our net earned premiums, credit events in our net par outstanding, market credit spreads and premium rates, among other factors. The loss ratios for the years ended December 31, 2003, 2002 and 2001 were 23.2%, 57.9% and 10.0%, respectively. The decline in the loss ratio in 2003 was due to an improvement in the credit environment compared to 2002. Additionally, in 2003 we substantially reduced the new single name corporate credit derivatives business we write; this business generates a higher loss ratio than our other financial guaranty direct businesses. The increase in the loss ratio in 2002 as compared with 2001 reflected a deterioration in the credit environment, as we incurred \$15.8 million of loss and loss adjustment expenses for three specific credit events. Two of these three events related to single name credit default swaps on which we were given notice of default in the fourth quarter of 2002 and the third credit event related to a total rate of return swap on Argentine mortgage bonds, which were impacted by currency devaluation and failed attempts to remedy the impairments to the bonds. In addition to these credit events, loss and loss adjustment expenses incurred also increased as a result of an increase in the portfolio reserve in 2002, precipitated by the stressed corporate credit environment resulting in an unprecedented level of corporate defaults in 2002 and 2001.

For the years ended December 31, 2003, 2002 and 2001, acquisition costs were \$2.8 million, \$2.4 million and \$0.9 million, respectively. The year over year increases in acquisition costs are primarily due to an increase in transaction rating agency fees related to the growth in gross written premiums as well as the increase in the proportion of such premiums subject to premium taxes.

Operating expenses for the years ended December 31, 2003, 2002 and 2001 were \$21.6 million, \$12.5 million and \$9.2 million, respectively. These increases were primarily due to the increase in required staff levels to support the growth in this segment as well as an increase in costs to establish the required platforms and infrastructure to enter the financial guaranty insurance business. Expense ratios were generally consistent at 34.8%, 33.7% and 33.3% for the years ended December 31, 2003, 2002 and 2001, respectively.

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. A decline in reinsurance capacity due to two significant competitors exiting this market has created opportunities for growth in this business segment. The financial guaranty reinsurance business consists of structured finance and municipal finance reinsurance lines. Premiums on municipal 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.

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

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Gross written premiums	\$ 168.7	\$ 84.6	\$ 70.4
Net written premiums	162.1	82.6	68.6
Net earned premiums	\$ 92.9	\$ 79.3	\$ 62.2
Loss and loss adjustment expenses	25.7	5.3	5.1
Profit commission expense	1.5	0.5	
Acquisition costs	33.9	29.0	24.7
Operating expenses	7.0	4.9	6.4
Underwriting gain	\$ 24.8	\$ 39.6	\$ 26.0
Loss and loss adjustment expense ratio	27.7%	6.7%	8.2%
Expense ratio	45.6	43.4	50.0
Combined ratio	73.3%	50.1%	58.2%
	Year Ended December 31,		
	2003	2002	2001
Gross Written Premiums			
Municipal finance	\$ 117.1	\$ 48.1	\$ 37.0
Structured finance	51.6	36.5	33.4
Total	\$ 168.7	\$ 84.6	\$ 70.4

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 municipal finance, which tends to be upfront premium, and structured finance, which tends to be installment premium. For the year ended December 31, 2003, 62.2% of gross written premiums in this segment were upfront premiums and 37.8% were installment premiums.

In 2002 and 2001, upfront premiums were 56.4% and 52.7%, respectively, of gross written premiums of this segment. Gross written premiums for the years ended December 31, 2003, 2002 and 2001 were \$168.7 million, \$84.6 million and \$70.4 million, respectively, which represent an increase of \$84.1 million and \$14.2 million in 2003 and 2002, or 99.4% and 20.2%, respectively. The principal driver of gross written premium growth over the period has been the strong growth in municipal finance premiums, which grew 143.4% and contributed 69.4% of the segment's gross written premiums in 2003 and grew 30.0% and contributed 56.8% of segment gross written premiums in 2002. Structured finance gross written premiums also grew, increasing 41.3% in 2003 and 9.3% in 2002.

Our municipal finance reinsurance growth has been driven by strong growth in insured U.S. municipal bond issuance over the period as well as the several European PFI transactions ceded to us in 2003. Premium rates on European transactions are typically higher than premium rates on U.S. municipal finance transactions. In 2003, we assumed \$503.7 million of gross par written from European project finance transactions.

For the years ended December 31, 2003, 2002 and 2001, gross written premiums in our structured finance line of business were \$51.6 million, \$36.5 million and \$33.4 million, respectively. The \$15.1 million increase in gross written premiums from 2002 to 2003 and the \$3.1 million increase in

gross written premiums from 2001 to 2002 was due to changes in the business mix and volume of installment premiums received in these periods.

The following table reconciles gross premiums written as presented in our statement of operations to the present value of gross premiums written and presents the net present value of installment premiums in-force:

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Gross written premiums	\$ 168.7	\$ 84.6	\$ 70.4
Less installment premiums included above	(63.8)	(36.9)	(33.3)
Upfront gross written premiums	104.9	47.7	37.1
Present value of installment premiums related to contracts written in current period	40.1	71.8	41.3
Present value of gross premiums written	\$ 145.0	\$ 119.5	\$ 78.4
Gross par written: ⁽¹⁾			
Municipal finance	\$ 6,720	\$ 7,486	\$ 4,661
Structured finance	3,295	5,563	3,425
Total	\$ 10,015	\$ 13,049	\$ 8,086
As of period end:			
Net present value of installment premiums in-force ⁽¹⁾	\$ 92.7	\$ 72.9	\$ 46.3
Net present value of installment premiums in-force, net of taxes ⁽¹⁾	61.9	47.4	30.1
Net par outstanding: ⁽¹⁾			
Municipal finance	\$ 50,538	\$ 47,509	\$ 46,436
Structured finance	13,287	12,441	13,291
Total	\$ 63,825	\$ 59,950	\$ 59,727

⁽¹⁾ This data is reported on a one-quarter lag due to the timing of receipt of reports prepared by our ceding companies.

For the years ended December 31, 2003, 2002 and 2001, the present value of gross premiums written was \$145.0 million, \$119.5 million and \$78.4 million, respectively. The increase in 2003 of \$25.5 million, or 21.3%, is primarily due to an increase in volume in the U.S. municipal finance business and large cessions on European project finance transactions. In 2002, the present value of gross premiums written increased \$41.1 million, or 52.4%, as a result of an increase in gross par written in this period from \$8.1 billion to \$13.0 billion, an increase of 61.4%.

The net present value of installment premiums in-force for the years ended December 31, 2003, 2002 and 2001 was \$92.7 million, \$72.9 million and \$46.3 million, respectively. The increase in the net present value of installment premiums in-force was driven by increases in the present value of installment premiums related to contracts written in the current period, offset principally by installment premiums received on contracts written in previous periods.

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Gross par written has fluctuated over the periods presented, rising 61.4% to \$13.0 billion in 2002 from \$8.1 billion in 2001 and declining 23.3% in 2003 to \$10.0 billion. The growth in 2002 reflects growth in cessions from the primary financial guaranty companies and reflects growth in insured par U.S. municipal and structural finance markets. See "Business." In 2003, we underwrote less gross par,

reflecting lower cessions from our ceding companies of U.S. municipal and structural finance business. This decline was partially offset by \$503.7 million in gross par written on 2003 European PFI deals.

Net Written Premiums	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Municipal finance	\$ 116.5	\$ 46.6	\$ 35.2
Structured finance	45.6	36.0	33.4
Total	\$ 162.1	\$ 82.6	\$ 68.6

For the years ended December 31, 2003, 2002 and 2001, net written premiums were \$162.1 million, \$82.6 million and \$68.6 million, respectively. The year over year increase of \$79.5 million and \$14.0 million in 2003 and 2002, respectively, is consistent with the increases in gross written premium described above. Of this increase, \$69.9 million and \$11.4 million in 2003 and 2002, respectively, was attributable to our municipal finance line, which is consistent with the year over year increase in municipal gross written premiums, explained above. The increase of \$9.6 million and \$2.6 million in 2003 and 2002, respectively, in our structured finance line of business also follows the pace of gross written premiums described above.

Net Earned Premiums	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Municipal finance	\$ 52.9	\$ 42.7	\$ 31.1
Structured finance	40.0	36.6	31.1
Total	\$ 92.9	\$ 79.3	\$ 62.2

Included in municipal reinsurance net premiums are refundings of: \$ 19.2 \$ 14.0 \$ 4.5

Growth in our net earned premiums over the period has been driven by growth in both the municipal and structured finance lines of business, as evidenced by the growth in net par outstanding, unearned premium reserves and the net present value of installment premiums in-force. However, the municipal finance business's contribution also includes an increase in refunding premiums, which reflect the unscheduled pre-payment or refundings of underlying municipal bonds due to lower interest rates. These unscheduled refunding premiums are sensitive to market interest rates and we evaluate our net earned premiums both including and excluding these premiums.

For the years ended December 31, 2003, 2002 and 2001, net earned premiums were \$92.9 million, \$79.3 million and \$62.2 million, respectively, an increase of \$13.6 million, or 17.2%, in 2003, and \$17.1 million, or 27.5%, in 2002. The municipal finance line accounted for \$10.2 million of the \$13.6 million increase in 2003, reflecting higher earned premium and gross par insured as well as a \$5.2 million increase in refunding related premiums. In 2002, refundings in our municipal finance line accounted for \$9.5 million of the \$17.1 million increase, largely due to \$14.0 million of refundings driven by the continued decline in interest rates as compared to \$4.5 million in 2001, an increase of \$9.5 million. Structured finance net earned premiums increased by \$3.4 million in 2003 and \$5.5 million in 2002.

Losses and LAE were \$25.7 million, \$5.3 million and \$5.1 million, respectively, for the years ended December 31, 2003, 2002 and 2001. Our loss and LAE ratios for the years ended December 31, 2003, 2002 and 2001 were 27.7%, 6.7% and 8.2%, respectively. The increase in the loss ratio from 6.7% to 27.7% in 2003 is primarily attributable to an increase in losses and LAE incurred in the structured finance line of business due to credit deterioration in collateralized debt obligations assumed through reinsurance treaties. Case reserves related to these collateralized debt obligations were increased in the

fourth quarter after completion of risk management's credit analysis, which included discussions with ceding companies. In 2002 and 2001, the level of loss experience was relatively consistent.

For the years ended December 31, 2003, 2002 and 2001, acquisition costs were \$33.9 million, \$29.0 million and \$24.7 million, respectively. The increases in acquisition costs over the periods are directly related to the increases in earned premium.

Operating expenses for the years ended December 2003, 2002 and 2001, were \$7.0 million, \$4.9 million and \$6.4 million. Operating expenses in 2003 increased by \$2.1 million as compared to 2002 as a result of the entry of our Bermuda subsidiary, Assured Guaranty Re International, into the financial guaranty reinsurance market. The decline in operating expenses in 2002 as compared to 2001 is primarily due to the change in business mix as we increased our focus on our financial guaranty direct operations. The expense ratios were 45.6%, 43.4% and 50.0% in 2003, 2002 and 2001, respectively.

Mortgage Guaranty Segment

The mortgage guaranty segment consists primarily of reinsurance. 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 ("LTV") 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. We intend to use our mortgage guaranty platform to write investment grade rated mortgage guaranty business.

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

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Gross written premiums	\$ 24.4	\$ 47.6	\$ 47.4
Net written premiums	24.4	47.6	47.6
Net earned premiums	\$ 27.6	\$ 45.3	\$ 39.7
Loss and loss adjustment expenses	(0.7)	8.9	6.2
Profit commission expense	7.3	8.3	9.2
Acquisition costs	5.0	8.0	7.2
Operating expenses	4.6	3.9	2.5
Underwriting gain	\$ 11.4	\$ 16.2	\$ 14.6
Loss and loss adjustment expense ratio	(2.5)%	19.6%	15.6%
Expense ratio	61.2	44.6	47.6
Combined ratio	58.7%	64.2%	63.2%

Gross written premiums for the years ended December 31, 2003, 2002 and 2001 were \$24.4 million, \$47.6 million and \$47.4 million, respectively. The decline in gross written premiums is due to the continued runoff of our quota share business, as well as significant refinancing activity due to the low interest rate environment. Results for 2002 include \$10.4 million of gross written premiums from one non-recurring transaction.

Net written premiums for the years ended December 31, 2003, 2002 and 2001 were \$24.4 million, \$47.6 million and \$47.6 million, respectively. The change is consistent with the trend in gross written premiums, as we do not cede a significant amount of our mortgage guaranty business.

For the years ended December 31, 2003, 2002 and 2001, net earned premiums were \$27.6 million, \$45.3 million and \$39.7 million, respectively. In each of the three years there were decreases in net earned premiums related to our quota share business. In 2002, this decline was offset by the non-recurring transaction described above, which generated \$10.4 million of earned premium.

Loss and loss adjustment expenses were \$(0.7) million, \$8.9 million and \$6.2 million, respectively, for the years ended December 31, 2003, 2002 and 2001. The loss and loss adjustment expense ratios for the years ended December 31, 2003, 2002 and 2001 were (2.5%), 19.6% and 15.6%, respectively. The negative loss ratio for 2003 is primarily a result of favorable loss experience related to older contracts, which are running off. This decrease was also attributable to higher than expected appreciation in real estate values, resulting in both lower frequency of claims and lower severity of losses. In 2002, the increase in the loss and loss adjustment expense ratio was primarily due to a single contract that was written during 2002 that had \$2.8 million of net earned premiums and was reserved at a 100% loss and loss adjustment expense ratio.

Profit commission expense for the year ended December 31, 2003, 2002 and 2001 was \$7.3 million, \$8.3 million and \$9.2 million, respectively. The decline in profit commission expense on a year-over-year basis is due to the decline in net earned premiums related to business that has a profit commission element, including our quota share business.

Acquisition costs for the years ended December 31, 2003, 2002 and 2001 were \$5.0 million, \$8.0 million and \$7.2 million, respectively. The decline in acquisition costs in 2003 as compared to 2002 is primarily due to the shift in business from quota share reinsurance to excess of loss reinsurance, as ceding commissions generally are not paid on excess of loss reinsurance. The increase in acquisition costs from 2001 to 2002 is commensurate with the increase in earned premiums.

Operating expenses for the years ended December 31, 2003, 2002 and 2001 were \$4.6 million, \$3.9 million and \$2.5 million, respectively. The expense ratio, which includes profit commission expense, was 61.2%, 44.6% and 47.6% for the years ended December 31, 2003, 2002 and 2001, respectively. The increase in the expense ratio in 2003 from 2002 is primarily due to the steady level of operating expenses required to support the business, as compared to a declining earned premium base, as discussed above.

Other Segment

Our other segment consists of certain non-core businesses that we have exited prior to, or in connection with, this offering including equity layer credit protection, trade credit reinsurance, title reinsurance, LA&H reinsurance and auto residual value reinsurance. Also included in the other segment is the impact of the affiliate reinsurance transactions described under " Combined Results of Operations Summary of Significant Affiliate Transactions" above. These reinsurance contracts were purchased for the benefit of all of our operating segments. We do not allocate the costs nor the related benefits of these transactions to each of the segments but rather record the impact of these transactions in the other segment.

Due to our decision to exit the above businesses, the following discussion focuses on net earned premiums and underwriting results of each business within this segment.

The following table provides details of net earned premiums and underwriting results by line of business:

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Net earned premiums:			
Equity layer credit protection	\$ 61.8	\$ 84.0	\$ 21.0
Trade credit reinsurance	51.2	27.8	23.5
Title reinsurance	10.7	7.3	6.5
LA&H		(32.2)	24.6
Auto residual value reinsurance	4.2	2.3	91.3
Affiliate reinsurance	(7.7)	(10.3)	(5.3)
Total	\$ 120.2	\$ 78.9	\$ 161.6
Underwriting gain (loss):			
Equity layer credit protection	\$ (1.0)	\$ (19.7)	\$ (18.4)
Trade credit reinsurance	(3.3)	(0.3)	(0.3)
Title reinsurance	6.8	3.3	1.1
LA&H	(0.6)	(1.3)	1.2
Auto residual value reinsurance	(24.5)	(8.1)	(10.1)
Affiliate reinsurance	7.4	5.8	(5.1)
Total	\$ (15.2)	\$ (20.3)	\$ (31.5)

In 2001, we entered the equity layer credit protection market with \$21.0 million of net earned premiums. In 2002, net earned premiums increased by \$63.0 million, reflecting favorable pricing for such transactions in the capital markets. We ceased writing new equity layer credit protection business during 2003, and net earned premiums declined from \$84.0 million for the year ended December 31, 2002 to \$61.8 million for the year ended December 31, 2003. The unprecedented level of corporate defaults in 2001 and 2002 along with expenses associated with our entry into the business resulted in underwriting losses of \$18.4 million in 2001 and \$19.7 million in 2002. For the year ended December 31, 2003, the underwriting loss in equity layer credit protection decreased to \$1.0 million as a result of the termination of three trades, which produced an underwriting gain of \$16.5 million.

Trade credit reinsurance net earned premiums were \$23.5 million, \$27.8 million and \$51.2 million for the years ended December 31, 2001, 2002 and 2003, respectively. The growth in earned premium is a result of steadily increasing writings in this line over the periods as a result of several competitors exiting this market. Underwriting losses for the years ended December 31, 2001, 2002 and 2003 were \$0.3 million, \$0.3 million and \$3.3 million, respectively. We intend to cease writing new trade credit business in 2004.

Net earned premiums for the title reinsurance business grew steadily, from \$6.5 million to \$7.3 million and \$10.7 million for years ended December 31, 2001, 2002 and 2003, respectively. This business has made modest contributions to underwriting results, with gains of \$1.1 million, \$3.3 million and \$6.8 million in 2001, 2002 and 2003, respectively. The \$6.8 million of underwriting gain for the year ended December 31, 2003 was primarily due to favorable prior year loss reserve development. In connection with this offering, ACE Capital Title will be sold to ACE or one of its subsidiaries and our other title reinsurance business will be reinsured by, or assigned to, a subsidiary of ACE.

LA&H had net earned premiums of \$24.6 million in 2001 and negative \$32.2 million in 2002. The fluctuation in net earned premium was related to the timing of new business written and novations and commutations of in-force business in early 2002, in connection with our exiting the LA&H business.

LA&H generated a \$1.2 million underwriting gain in 2001. The underwriting losses of \$1.3 million in 2002 and of \$0.6 million in 2003 were related to the litigation and settlement of a disputed contract.

Auto residual value reinsurance net earned premiums were \$91.3 million, \$2.3 million and \$4.2 million for the years ended December 31, 2001, 2002 and 2003, respectively. The decrease in earned premium in 2002 was due to a non-recurring transaction in 2001 with net earned premiums of \$86 million. Underwriting losses were \$10.1 million, \$8.1 million and \$24.5 million for the years ended December 31, 2001, 2002 and 2003, respectively. The underwriting loss of \$24.5 million in 2003 is a result of an increase in reserves for losses and loss adjustment expenses related to a dispute with World Omni (see note 15 of notes to combined financial statements for further discussion). We ceased writing new business in this line in 2001.

Net earned premiums related to affiliate reinsurance were negative \$5.3 million, \$10.3 million and \$7.7 million for the years ended December 31, 2001, 2002 and 2003, respectively, and primarily represent the cost of the Assured Guaranty Corp. Affiliate Reinsurance Transaction and AGRI Affiliate Reinsurance Transaction for these periods. As a result of losses of \$15.0 million and \$14.4 million ceded under these contracts in 2002 and 2003, respectively, affiliate reinsurance generated an underwriting gain of \$5.8 million and \$7.4 million, respectively. The underwriting loss of \$5.1 million in 2001 was approximately equal to the cost of the affiliate reinsurance for this period.

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 subsidiaries to pay dividends or make other payments to us; (2) external financings; and (3) investment income on 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 on 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. Beyond the next twelve months, the ability of our subsidiaries to declare and pay dividends may be influenced by a variety of factors including market conditions, insurance 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. See "Business Regulation." The amount available at Assured Guaranty Corp. to pay dividends in 2004 with notice to, but without the prior approval of, the Maryland Insurance Commissioner is approximately \$25.6 million. Dividends paid by a U.S. company to a Bermuda holding company presently are subject to withholding tax at a rate of 30%. The amount available at AGRI to pay dividends in 2004 in compliance with Bermuda law is \$569.1 million. Each of Assured Guaranty Corp. and AGRI has committed to S&P and Moody's that it will not pay more than \$10.0 million per year in dividends.

Liquidity at our operating subsidiaries is used to pay operating expenses, claims, payment obligations with respect to credit derivatives, reinsurance premiums 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 on their respective investment portfolios. ACE currently maintains certain letters of credit on behalf of our subsidiaries in an aggregate amount of approximately \$26 million. We are currently negotiating with a third party for replacement letters of credit.

Net cash provided by operating activities was \$203.2 million, \$278.3 million and \$159.9 million during the years ended December 31, 2003, 2002 and 2001, respectively. These cash flows were primarily provided by premium received and investment income. Net cash provided by operating activities was \$203.2 million compared to \$278.3 million in 2002. The net cash provided by operating activities decreased by \$75.1 million despite the increase of \$142.0 million in net income in 2003 compared to 2002. The increase in net income is primarily due to the change in the market value of derivative financial instruments as the unrealized gains (losses) on derivative financial instruments increased from a loss of \$54.2 million in 2002 to income of \$98.4 million in 2003. This change had no cash flow impact. Operating cash flow was negatively impacted by the decrease in cash received on written premiums of approximately \$70 million in 2003 compared to 2002 primarily driven by the decreased premium writings of equity layer credit protection in 2003, which is reflected in the change in unearned premium reserves in the statement of cash flows.

In 2002, net cash provided by operating activities increased by \$118.4 million compared to 2001. This increase was driven primarily by the \$152.5 million of premium paid in 2001 by us to an affiliate for the Assured Guaranty Corp. Affiliate Reinsurance Transaction and the AGRI Affiliate Reinsurance Transaction.

Net cash used in financing activities was \$35.0 million, \$6.0 million and \$5.2 million during the years ended December 31, 2003, 2002 and 2001, respectively. During the years ended December 31, 2003, 2002 and 2001, ACE contributed capital of \$3.7 million, \$84.2 million and \$8.2 million, respectively, to us. These capital contributions were utilized to pay interest on long-term debt. The capital contribution in 2002 also included \$75.0 million for the purpose of the repayment of our long-term debt. In all years, these were non-cash contributions. Dividends paid to ACE were \$35.0 million, \$8.0 million and \$5.5 million during the years ended December 31, 2003, 2002 and 2001, respectively.

The following table summarizes our contractual obligations as of December 31, 2003:

As of December 31, 2003					
	Less Than One Year	1-3 Years	4-5 Years	After 5 Years	Total
	(\$ in millions)				
Long-term debt				\$ 75.0	\$ 75.0
Lease obligations	\$ 3.3	\$ 10.0	\$ 6.4		19.7
Total	\$ 3.3	\$ 10.0	\$ 6.4	\$ 75.0	\$ 94.7

Credit Facilities

Assured Guaranty Corp. is a party to a revolving credit facility with seven banks including Bank of America (an affiliate of Banc of America Securities LLC) and Citibank N.A. (an affiliate of Citigroup Global Markets Inc.) for \$140 million, which expires May 20, 2004 and provides a one-year term loan provision. The facility is available for general corporate purposes, including the payment of claims, and is guaranteed by ACE. As of December 31, 2003 and 2002, no amounts were outstanding under this facility. This facility's financial covenants require that Assured Guaranty Corp.: (1) maintain as of the end of each quarter, a consolidated debt to total capital ratio of not more than 35%, (2) not permit

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statutory capital to be less than 80% of statutory capital as of the fiscal quarter of Assured Guaranty Corp. prior to the closing date of the facility, (3) not permit its ratio of net par to statutory capital to exceed 150 to one, and (4) not permit the aggregate value of all property of Assured Guaranty Corp. subject to a lien given to secure payment of credit derivative guaranties to exceed 11% of the sum of the total capitalization plus the aggregate value of all collateral provided for the benefit of the lending banks. Assured Guaranty Corp. is in compliance with all of these financial covenants. In addition, during any period in which Assured Guaranty Corp. has outstanding borrowings under the credit facility, Assured Guaranty Corp.'s ability to declare dividends is limited to (a) dividends payable to its material subsidiaries or (b) dividends payable not in excess of \$15 million in any fiscal year. Assured Guaranty Corp. has not borrowed under this facility.

Assured Guaranty Corp. is also party to a non-recourse credit facility with a syndicate of banks including Deutsche Bank AG (an affiliate of Deutsche Bank Securities Inc.) which provides up to \$175 million specifically designed to provide rating agency-qualified capital to further support Assured Guaranty Corp.'s claims paying resources. The facility expires in November of 2010 and is subject to annual extension for an additional term of one year in order to maintain its term at seven years.

Assured Guaranty Corp. participates in a liquidity facility established for the benefit of ACE and certain of its subsidiaries. The overall facility is a 364-day credit agreement in the amount of \$500 million with a syndicate of banks. Assured Guaranty Corp. has a \$50 million participation in the facility. Assured Guaranty Corp. has not used the facility, and its participation in the facility will terminate prior to the completion of this offering.

Assured Guaranty has executed a mandate letter pursuant to which ABN AMRO Incorporated has agreed to act as lead arranger and sole bookrunner in the structuring, arrangement and syndication of a \$250 million unsecured credit facility to which each of Assured Guaranty, Assured Guaranty Corp. and Assured Guaranty (UK) is to be a party, as borrower. It is proposed that Banc of America Securities LLC act as co-arranger for the facility, and anticipated that Bank of America (an affiliate of Banc of America Securities LLC) will participate as a lender.

The \$250 million unsecured credit facility is proposed to be a 364-day facility available for general corporate purposes, and that any amounts outstanding under the facility at its expiration be due and payable one year following the facility's expiry. Under the facility as proposed, Assured Guaranty will have a borrowing limit not to exceed \$50 million, and Assured Guaranty (UK) will have a borrowing limit not to exceed \$12.5 million. The proposed facility's financial covenants will require that Assured Guaranty (a) maintain a minimum net worth of 75% of its *pro forma* net worth (determined as of the first required reporting date under the facility), (b) maintain an interest coverage ratio of at least 2.5:1.0, and (c) maintain a maximum debt-to-capital ratio of 30%. In addition, the facility will require that Assured Guaranty Corp. (a) 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, (b) maintain a ratio of aggregate net par outstanding to qualified statutory capital of not more than 150:1, and (c) maintain a maximum debt-to-capital ratio of 35%. While it is proposed that the obligations of the borrowers under the facility be several, a default by one borrower will give rise to a right of the lenders to terminate the facility and accelerate all amounts then outstanding. It is proposed to be a condition to the execution and delivery of definitive documentation for the facility that this offering be consummated and that thereafter ACE Limited will own less than 50% of the outstanding capital stock of Assured Guaranty.

ACE Bermuda currently makes available to AGRI a \$50 million credit line and ACE INA Holdings currently makes available to Assured Guaranty Corp. a \$75 million credit line. Neither AGRI nor Assured Guaranty Corp. has utilized these lines, and the lines are expected to be terminated in connection with this offering.

Investment Portfolio

Our investment portfolio consisted of \$2,052.2 million of fixed maturity securities, \$137.5 million of short-term investments and had a duration of 5.4 years as of December 31, 2003. Our fixed maturity securities are designated as available for sale in accordance with FAS 115 "Accounting for Certain Investments in Debt and Equity Securities." Fixed maturity securities are reported at fair value in accordance with FAS 115, and the change in fair value is reported as part of accumulated other comprehensive income.

The following table summarizes our investment portfolio as of December 31, 2003:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(\$ in millions)			
U.S. government and agencies	\$ 255.2	\$ 16.3	\$ (0.4)	\$ 271.1
Obligations of state and political subdivisions	788.4	65.4	(1.0)	852.8
Corporate securities	268.1	21.5	(1.1)	288.6
Mortgage-backed securities	538.9	13.2	(2.1)	549.9
Structured securities	75.8	2.3	(0.1)	77.9
Foreign government and agencies	11.4	0.5		11.9
Total available for sale	1,937.7	119.2	(4.7)	2,052.2
Short-term investments	137.5			137.5
Total investments	\$ 2,075.3	\$ 119.2	\$ (4.7)	\$ 2,189.7

As of December 31, 2003, we held the following investments denominated in currencies other than U.S. dollars:

Currency	Amortized Cost	Estimated Fair Value
	(\$ in millions)	
Sterling	\$ 30.6	\$ 31.7
Euro	3.7	3.7
Australian Dollar	0.6	0.6
	\$ 34.9	\$ 36.0

The amortized cost and estimated fair value of fixed maturity securities available for sale as of December 31, 2003, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. See note 9 of the notes to our combined financial statements for information on our fixed maturity securities available for sale as of December 31, 2003 and 2002.

	Amortized Cost	Estimated Fair Value
	(\$ in millions)	
Due within one year	\$ 21.8	\$ 22.2
Due after one year through five years	229.1	242.6
Due after five years through ten years	299.2	323.6
Due after ten years	848.7	913.9
Mortgage-backed securities	538.9	549.9

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	Amortized Cost	Estimated Fair Value
Total	\$ 1,937.7	\$ 2,052.2

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 Policies."

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

The following table summarizes the ratings distributions of our investment portfolio as of December 31, 2003 and 2002. Ratings are represented by the lower of the Moody's and S&P classifications.

	As of December 31,	
	2003	2002
AAA or equivalent	74.6%	78.0%
AA	13.9	12.1
A	10.7	9.1
BBB	0.8	0.8
Total	100.0%	100.0%

As of December 31, 2003 and 2002, 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 cedents 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 December 31, 2003 and 2002 was \$370.0 million and \$355.2 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 totalled \$154.8 million as of December 31, 2003 and \$194.7 million as of December 31, 2002.

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 risk management 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 Policies 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. Two external investment managers, Hyperion Capital Management and Lazard Freres, manage our fixed maturity investment portfolio in accordance with investment guidelines approved by our Board of Directors.

New Accounting Pronouncements

In May 2003, FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FAS 150"), which establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. FAS 150 requires the classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). FAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS 150 did not have a material impact on the combined financial statements.

In April 2003, FASB issued FAS No. 149, "Amendment of FASB Statement No. 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement improves financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. For example, this Statement requires that financial guaranty insurance for which the underlying risk is linked to a derivative be accounted for as a derivative. This Statement is effective for contracts entered into or modified after June 30, 2003, except for the provisions of this Statement that relate to FAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, and for hedging relationships designated after June 30, 2003. All provisions are to be applied prospectively, except for the provisions of this Statement that relate to FAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003. These provisions are to be applied in accordance with their respective effective dates. The adoption of FAS 149 did not have a material impact on the combined financial statements.

In December 2002, FASB issued FAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("FAS 148"). FAS 148 provides alternative methods of transitioning for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. FAS 148 amends the disclosure requirements of FAS No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. FAS 148 is effective for companies with fiscal year ending after December 15, 2002. We continue to account for stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25 ("APB 25").

Effective January 1, 2002, we adopted FAS No. 141, "Business Combinations" and FAS No. 142, "Goodwill and Other Intangible Assets." FAS No. 141, which supercedes APB 16, "Business Combinations," requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and provides specific criteria for initial recognition of intangible assets apart from goodwill. FAS No. 142, which supercedes APB 17, "Intangible Assets," requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead tested for impairment at least annually. FAS No. 142 established new accounting and reporting standards for acquired goodwill and other intangible assets. It requires that an entity determine if the goodwill or

other intangible assets has an indefinite or a finite useful life. Those with indefinite useful lives will not be subject to amortization and must be tested annually for impairment. See note 5 of the notes to our combined financial statements for further information.

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), as an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 addresses consolidation of variable interest entities ("VIEs") by business enterprises. An entity is considered a VIE subject to consolidation if the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support or if the equity investors lack one of three characteristics of a controlling financial interest. First, the equity investors lack the ability to make decisions about the entity's activities through voting rights or similar rights. Second, they do not bear the obligation to absorb the expected losses of the entity if they occur. Lastly, they do not claim the right to receive expected returns of the entity if they occur, which are the compensation for the risk of absorbing the expected losses. FIN 46 requires that VIEs be consolidated by the entity that maintains the majority of the risks and rewards of ownership. This interpretation applies immediately to VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains interest after that date. FASB deferred the effective date of FIN 46 until the end of the first interim or annual period ending after December 15, 2003 for VIEs created before February 1, 2003. The adoption of FIN 46 did not have a material impact on our combined financial statements.

In November 2002, FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 outlines certain accounting guidelines, effective for fiscal years beginning after December 15, 2002, from which our insurance transactions and derivative contracts are excluded. In addition, FIN 45 expands the disclosures required by a guarantor in its interim and annual financial statements regarding obligations under certain guaranties. These disclosure requirements are effective for the year ended December 31, 2002. Our financial position and results of operations did not change as a result of the adoption of FIN 45.

BUSINESS**Overview**

We are a Bermuda-based company providing credit enhancement products to the municipal finance, structured finance and mortgage markets. We apply our credit expertise, risk management skills and capital markets experience to develop insurance, reinsurance and 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 three operating segments:

Financial guaranty direct, which protects the holder against an issuer's failure to pay principal and interest when due or other credit events.

Financial guaranty reinsurance, which indemnifies another financial guarantor, the "ceding company," against part or all of the loss the ceding company may sustain under financial guaranty policies it has reinsured to us.

Mortgage guaranty, which protects mortgage lenders and investors against the default of borrowers on mortgage loans, and provides reinsurance to mortgage guaranty insurers.

Our other segment includes businesses we have exited. The following table sets forth information for each of our segments for the year ended December 31, 2003:

	Gross Written Premiums		Combined Ratio
	Amount	Percent	
	(\$ in millions)		
Financial guaranty direct	\$ 71.2	27.0%	58.0%
Financial guaranty reinsurance	168.7	63.8	73.3
Mortgage guaranty	24.4	9.2	58.7
Total operating segments	\$ 264.3	100.0%	65.6%
Other	84.9		112.6
Total	\$ 349.2		83.7%

Our businesses have a history of strong income generation, producing cumulative net income of \$444.1 million since January 1, 2000. As of December 31, 2003, we had cash and invested assets of \$2.2 billion, total assets of \$2.9 billion and shareholder's equity of \$1.4 billion (\$1.3 billion on a pro forma basis after giving effect to the transactions described under "Formation Transactions"). Our invested assets as of December 31, 2003 consisted entirely of cash and fixed maturity securities with an average rating of AA+. Our past performance may not be indicative of future results.

Financial strength ratings are an important factor in establishing our competitive position in the markets in which we compete. The objective of these ratings is to provide an independent opinion of our financial strength and ability to meet our ongoing obligations to our policyholders. Ratings reflect the rating agencies' opinions of our financial strength, and are neither evaluations directed to investors in our common shares nor recommendations to buy, sell or hold our common shares. As of the date of

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this prospectus, our insurance company subsidiaries have been assigned the following insurance financial strength ratings:

	Moody's*	S&P	Fitch
Assured Guaranty Corp.	Aa2(Excellent)	AAA(Extremely Strong)**	Not rated***
AGRI	Aa3(Excellent)	AA(Very strong)	AA(Very strong)
AGRO	Aa3(Excellent)	AA(Very strong)	AA(Very strong)
Assured Guaranty Mortgage	Aa3(Excellent)	AA(Very strong)	AA(Very strong)

*

On April 9, 2004, Moody's placed the insurance financial strength ratings of our insurance subsidiaries under review for possible upgrade. Moody's, however, indicated that the upgrades under consideration would most likely not exceed one notch ("Aa1" (Excellent), the second highest of its 21 ratings categories, for Assured Guaranty Corp. and "Aa2" (Excellent), the third highest of its 21 ratings categories, for our other principal insurance subsidiaries).

**

Assured Guaranty Corp.'s S&P ratings outlook is "Negative."

ACE and Fitch both agreed to withdraw Assured Guaranty Corp.'s Fitch rating.

Competitive Strengths

We believe that our competitive strengths enable us to capitalize on the opportunities in the credit enhancement markets. These strengths include:

Underwriting discipline and financial structuring expertise. We have a disciplined approach to underwriting that emphasizes profitability over market share. We have substantial experience in developing innovative credit enhancement solutions to satisfy the diverse risk and financial management demands of our customers. We emphasize an analytical underwriting process organized around integrated teams consisting of credit and quantitative analysts, risk management professionals and lawyers.

Established market relationships. Over the past 15 years we have developed strong relationships with key participants in our markets, including issuers, investors, financial guarantors and financial institutions. We seek to distinguish ourselves from our competitors by providing innovative credit enhancement solutions and superior execution and client service. We intend to capitalize on our long-standing relationships as we expand our presence in financial guaranty insurance and international markets.

Experienced management, underwriting team and board. Our senior management has an average of more than 16 years experience in the insurance, credit and financial guaranty markets. Our President and Chief Executive Officer, Dominic Frederico, has 29 years of insurance industry experience and has been the senior ACE executive supervising our business; and Michael Schozer, President of Assured Guaranty Corp., has 13 years of financial guaranty and banking experience. We also have a team of 15 senior underwriters with an average of approximately 12 years of financial guaranty or similar credit experience. Our board of directors also has substantial financial services industry experience.

Multiple locations and licenses. We have operations in Bermuda, the United States and the United Kingdom. We have a range of licenses that allows us to participate in many sectors of the credit enhancement market.

Corporate Strategy

Our objective is to build long-term shareholder value by achieving strong profitability through disciplined underwriting, proactive risk management and the growth of our business. Our goal is to improve our return on average equity (excluding the impact of realized gains and losses on investments and unrealized gains and losses on derivative financial instruments) to be consistent with the returns of the leading performers in the financial guaranty industry. The major elements of our strategy are:

Expand our direct financial guaranty business. We intend to expand our direct financial guaranty business beyond our historical focus on credit derivatives by substantially increasing the amount of traditional financial guaranty insurance we write in U.S. and international markets. We believe the market for financial guaranty insurance will grow as the issuance of municipal and structured finance obligations continues to be strong, as capital providers continue to seek to reduce risk exposures and as the market for credit enhancement products develops further. We believe that we have an opportunity to expand our market position as investors seek to diversify their exposure to the small group of primary financial guarantors. We intend to write business in a manner consistent with achieving our goal of obtaining a "Aaa" rating from Moody's to match our "AAA" rating from S&P.

Expand our financial guaranty reinsurance business. Our commitment to the financial guaranty reinsurance market, readiness to execute transactions and financial strength afford us a significant opportunity to profitably gain market share. Decisions by two major competitors to exit this market have significantly reduced reinsurance capacity at a time when we believe demand for financial guaranty reinsurance is growing. We intend to utilize our flexible operating platform to improve our returns in this business.

Transition our mortgage guaranty business. We intend to write investment grade mortgage guaranty insurance and reinsurance that is consistent with our ratings objectives. Our industry experience and licenses enable us to provide mortgage credit enhancement in the form of either financial guaranty insurance or mortgage guaranty insurance to meet the specific needs of mortgage lenders and investors.

Expand our position in international markets. We intend to capitalize on significant growth opportunities in international markets. Our initial focus for international expansion is privatization finance initiatives in the United Kingdom, the largest market for financial guaranty insurance outside the United States, and public/private partnerships in the rest of Europe.

Maintain our commitment to financial strength. We recognize the importance of our excellent financial strength ratings and intend to write business in a manner consistent with achieving our goal of obtaining a "Aaa" rating from Moody's to match our "AAA" rating from S&P. We will maintain our financial strength through disciplined risk selection, prudent operating and financial leverage and a conservative investment posture.

Manage our capital efficiently. We will monitor rating agency capital adequacy requirements to appropriately deploy capital to optimize the execution of our business plan and our return on capital.

Industry Overview

Financial Guaranty Insurance

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 municipal bonds and structured securities. Both issuers of and investors in financial instruments may benefit from financial guaranty insurance. Issuers benefit because the insurance may have the effect of lowering an issuer's

cost of borrowing to the extent that the insurance premium is less than the value of the difference between the yield on the insured obligation (carrying the credit rating of the insurer) and the yield on the obligation if sold on the basis of its uninsured credit rating. Financial guaranty insurance also increases the marketability of obligations issued by infrequent or unknown issuers, as well as obligations with complex structures or backed by asset classes new to the market. Investors benefit from increased liquidity in the secondary market, added protection against loss in the event of the obligor's default on its obligation, and reduced exposure to price volatility caused by changes in the credit quality of the underlying insured issue.

As an alternative to traditional financial guaranty insurance, credit protection relating to a particular security or issuer can be provided through a credit derivative, such as a credit default swap. Under the terms of a credit default swap, the seller of credit protection makes a specified payment to the buyer of credit protection upon the occurrence of one or more specified credit events with respect to a reference obligation or entity. Credit derivatives typically provide protection to a buyer rather than credit enhancement of an issue as in traditional financial guaranty insurance. Credit derivatives may be preferred by some customers because they generally offer ease of execution, standardized terms and greater liquidity.

We believe that demand for financial guaranty insurance will remain strong over the long term as a result of the strength of the asset securitization and municipal bond new issuance markets. Internationally, we believe demand for financial guaranty insurance will increase due to the expansion of privatization initiatives and the project finance and securitization markets in Europe.

Financial guaranty insurance is generally provided for structured finance and municipal finance obligations in the U.S. and international markets.

Structured Finance Structured finance obligations are generally backed by pools of assets, such as residential mortgage loans, consumer or trade receivables, securities or other assets having an ascertainable cash flow or market value, which are generally held by a special purpose issuing entity. Structured finance obligations can be "funded" or "synthetic." Funded structured finance obligations generally have the benefit of one or more forms of credit enhancement, such as over-collateralization and excess cash flow, to cover credit risks associated with the related assets. Synthetic structured finance obligations generally take the form of credit derivatives or credit-linked notes that reference a pool of securities or loans, with a defined deductible to cover credit risks associated with the referenced securities or loans.

The following table sets forth the par amount of certain funded structured obligations issued in the United States, including securities distributed under Rule 144A under the Securities Act, for the periods indicated, and the par amount of structured finance obligations insured during the same period:

U.S. Asset-Backed Market

	New Issues of Funded Structured Finance Obligations ⁽¹⁾	Insured U.S. Structured Finance Obligations ⁽²⁾
	(\$ in billions)	
1997	\$ 215.4	\$ 79.8
1998	256.6	103.6
1999	263.9	117.9
2000	275.5	116.1
2001	331.6	167.1
2002	413.1	165.5
2003	505.8	Not available

(1)

Source: *Asset-Backed Alert*, January 11, 2002, January 10, 2003 and January 9, 2004. Includes U.S. asset-backed securities, other than commercial mortgage-backed securities, residential mortgage-backed securities (prime jumbo and Alt-A) and CDOs.

(2)

Source: Association of Financial Guaranty Insurers, April 17, 2002 and April 23, 2003. Includes all funded and synthetic primary-market and secondary-market U.S. insured transactions, except municipal obligations.

As summarized in the foregoing table, the U.S. structured finance market has experienced strong growth in recent years. U.S. structured finance obligations insured by financial guarantors have also risen over this period. More recently, however, the amount of new par insured has stabilized. This stabilization has occurred for several reasons, including greater investor acceptance of uninsured structured finance transactions, growing issuer preference for alternate forms of credit enhancement such as overcollateralization and reduced appetite among financial guarantors for certain asset classes or servicers due to risk aggregation concerns.

Municipal Finance Municipal finance obligations consist primarily of debt obligations issued by or on behalf of states or their political subdivisions (counties, cities, towns and villages, utility districts, public universities and hospitals, public housing and transportation authorities), other public and quasi-public entities (including non-U.S. sovereigns and subdivisions thereof), private universities and hospitals, and investor-owned utilities. These obligations generally are supported by the taxing authority of the issuer, the issuer's or underlying obligor's ability to collect fees or assessments for certain projects or public services or revenues from operations. Recently, this market has expanded to include project finance obligations, as well as other structured obligations supporting infrastructure and other public works projects.

The following table sets forth the volume of new issues of long-term (longer than 12 months) municipal bonds and the volume of new issues of insured long-term municipal bonds over the past seven years in the United States:

U.S. Municipal Long-Term Market

	New Money and Combined Financings	Refundings	Total Volume	Refundings as a Percentage of Total Volume	Insured Bonds Volume	Insured Bonds as a Percentage of Total Volume
	(\$ in billions)					
1997	\$ 160.5	\$ 60.2	\$ 220.7	27.3%	\$ 107.5	48.7%
1998	204.8	81.9	286.7	28.6	145.1	50.8
1999	189.3	38.3	227.6	16.8	105.6	46.4
2000	181.2	19.5	200.7	9.7	79.3	39.6
2001	223.6	64.7	288.2	22.4	143.3	46.6
2002	266.6	92.1	358.8	25.7	178.9	49.9
2003	289.9	93.8	383.7	24.5	189.7	49.4

Source:

Amounts are based upon estimated data reported by The Bond Buyer's 2003 Yearbook and The Bond Buyer's database as of February 9, 2004. Amounts represent gross par amounts issued or insured, respectively, during such year.

Changes in volume of municipal bond issuance since 1997 are primarily attributable to changes in the financing needs of municipalities and refunding activity related to the then-current interest rate environment. The percentage of municipal long-term bonds that are insured varies from period to period for several reasons, including the mix of credit ratings of the issuers, interest rates and market credit spreads, financial guaranty price competition and investor demand for insured versus uninsured obligations.

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International We believe PFI currently provides the single largest opportunity for international expansion of financial guaranty products. UK government investment in essential public infrastructure has increased significantly in recent years. Since 1997, the aggregate value of issuances has increased from £2,187.6 million to £7,639.3 million in 2002. Financial guarantors have been important contributors to the growth of this market, with par insured increasing from £75.8 million in 1997 to £997.8 million in 2002. We believe UK issuance volume will continue to increase, as financed projects move from construction to operation and equity investors seek refinancing.

The following table sets forth the volume of PFI issuance in the period from 1997 to 2002 and the portion of such issuance that was insured:

U.K. Private Finance Initiative Issuance

	Aggregate Issuance ⁽¹⁾	Par Insured ⁽²⁾	Insured Penetration
	(£ in millions)		
1997	£ 2,187.6	£ 75.8	3.5%
1998	2,694.9	426.6	15.8
1999	2,385.0	241.2	10.1
2000	3,661.0	482.8	13.2
2001	2,083.1	712.7	34.2
2002	7,639.3	997.8	13.1

(1) Source: H.M. Treasury PFI Signed Projects List database July 2003.

(2) Source: Standard & Poor's Credit Survey of the UK Private Finance Initiative and Public Private Partnerships (April 2003).

The following table sets forth international par insured by financial guaranty insurance companies that are members of the Association of Financial Guaranty Insurers for the period from 1997 to 2002:

International Financial Guaranty Insurance

	Municipal Finance Par Insured	Structured Finance Par Insured	Total Par Insured	Percent Change From Prior Year
	(\$ in billions)			
1997	\$ 3.9	\$ 12.8	\$ 16.7	
1998	3.1	16.4	19.5	17%
1999	2.5	24.2	26.7	37
2000	4.1	55.2	59.3	122
2001	6.0	51.4	57.4	(3)
2002	8.1	63.2	71.3	24

Source: Association of Financial Guaranty Insurers, April 17, 2002 and April 23, 2003.

Financial Guaranty Reinsurance

Financial guaranty reinsurance indemnifies the primary insurance company against part or all of the loss that the latter may sustain under a policy that it has issued. The reinsurer may itself purchase reinsurance protection ("retrocessions") from other reinsurers, thereby syndicating its own exposure.

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Reinsurance agreements take two major forms: "treaty" and "facultative." Treaty reinsurance requires the reinsured to cede, and the reinsurer to assume, specific classes of risk underwritten by the ceding company over a period of time, typically one year. Facultative reinsurance is the reinsurance of part or all of one or more policies, and is subject to separate negotiation for each cession.

The size and growth of the financial guaranty reinsurance market is dependent on (1) the size of the primary insurance market, (2) the percentage of aggregate risk that the primary insurers cede to reinsurers, (3) regulatory, rating agency and other external risk retention limitations imposed on the primary insurers, (4) the credit allowed primary insurers by their regulators and rating agencies for ceded reinsurance, and (5) the price and availability of substitute highly rated capital facilities. As a result of expected growth in the primary financial guaranty market, rating agency capital adequacy and risk diversification requirements and the recent contraction in the availability of financial guaranty reinsurance capacity, we believe that there are growth opportunities in this market.

Mortgage Guaranty

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 an LTV in excess of a specified ratio. In the United States, governmental agencies and private mortgage guaranty insurance compete in this market, while some lending institutions choose to self-insure against the risk of loss on high LTV mortgage loans.

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 U.S. private mortgage guaranty insurance industry, composed of only monoline insurance companies as required by law, provides two basic types of coverage: primary insurance, which protects lenders against default on individual residential mortgage loans by covering losses on such loans to a stated percentage, and pool insurance, which protects lenders against loss on an underlying pool of individual mortgages by covering the full amount of the loss (less the proceeds from any applicable primary coverage) on individual residential mortgage loans in the pool, with an aggregate limit usually expressed as a percentage of the initial loan balances in the pool. Primary and pool insurance are used to facilitate the sale of mortgage loans in the secondary mortgage market, principally to the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Fannie Mae and Freddie Mac provide indirect funding for approximately half of all mortgage loans originated in the United States. Fannie Mae and Freddie Mac are prohibited by their charters from purchasing mortgage loans with LTV's of greater than 80% unless the loans are insured by a designated mortgage guaranty insurer or some other form of credit enhancement is provided. In addition, pool insurance is often used to provide credit support for mortgage-backed securities and other secondary mortgage market transactions.

The following table sets forth the volume of new mortgage loan originations (including refinancings) in the United States and the volume of such loans covered by private mortgage insurance over the past seven years. Changes in origination volume during this period are primarily related to the

then-current interest rate and general economic environments. Volume increased dramatically in 2001 and 2002 as low interest rates drove refinancings to record levels.

Year	Total Originations	New Private Mortgage Insurance Written	New Private Mortgage Insurance Written as a Percentage of Total Originations
		(\$ in billions)	
1997	\$ 859	\$ 121	14.1%
1998	1,450	187	12.9
1999	1,310	189	14.4
2000	1,048	163	15.6
2001	2,058	283	13.7
2002	2,680	337	12.6
2003	3,760	404	10.7

Source: *Inside Mortgage Finance*, January 30, 2004 and February 13, 2004 editions.

Private mortgage insurance in the United Kingdom is called mortgage indemnity guarantee ("MIG") and provides coverage for mortgages originated above a specified loan to value percentage, typically 75% to 80%. Most residential mortgages originated in the United Kingdom are held by the originating lender rather than sold to a third party as is common in the United States. As a result, UK lenders utilize MIG as a risk management tool to mitigate potential losses on their residential lending portfolios. Due to a severe housing recession in the early 1990s, most third party insurance providers of MIG ceased writing the product. As a result, many lenders set up captive insurers to write MIG.

The following table sets forth the volume of new mortgage loan originations (including refinancings) in the United Kingdom over the past seven years:

Year	Total Originations
	(£ in billions)
1997	£ 77.3
1998	89.4
1999	114.3
2000	119.5
2001	160.2
2002	218.7
2003	271.0

Source: CML Housing Finance No. 61, Spring 2004.

Our Operating Segments

Our historical financial results include three operating segments: financial guaranty direct, financial guaranty reinsurance and mortgage guaranty. The following table sets forth our gross written premiums by segment for the periods presented:

Gross Written Premiums By Segment

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Financial guaranty direct:			
Municipal finance	\$ 3.4	\$ 1.5	\$ 1.9
Structured finance	67.8	45.9	44.1
Total financial guaranty direct	71.2	47.4	46.0
Financial guaranty reinsurance:			
Municipal finance	117.1	48.1	37.0
Structured finance	51.6	36.5	33.4
Total financial guaranty reinsurance	168.7	84.6	70.4
Mortgage guaranty	24.4	47.6	47.4
Total operating segments	\$ 264.3	\$ 179.7	\$ 163.8
Other	84.9	237.6	279.1
Total	\$ 349.2	\$ 417.2	\$ 442.9

We primarily conduct our business in the United States; however, some of our clients are companies located in the United Kingdom, Europe and Australia. For the years ended December 31, 2003, 2002 and 2001, gross written premium in currencies other than U.S. dollars was \$67.1 million, \$48.5 million and \$29.9 million, respectively.

Financial Guaranty Direct

Management uses the present value of gross premiums written to evaluate new business production for our direct financial guaranty business. The following table sets forth this measure by product line for each of the periods presented:

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Municipal finance	\$ 1.5	\$ 1.4	\$ 3.1
Structured finance	92.3	94.6	113.5
Total	\$ 93.8	\$ 96.0	\$ 116.6

Year Ended December 31,

We entered the direct financial guaranty market in 1996 as a means to diversify our historical focus on reinsurance, initially focusing on our single-name credit default swap business. In 2000, we expanded our direct product offerings to include credit protection on CDOs and asset-backed and mortgage-backed securities. We have made significant progress in developing the operational, underwriting, risk management, business development, investor relations and legal capabilities necessary to support a primary financial guaranty insurance business. We began a primary financial guaranty insurance licensing program in the United States, receiving our first license in 2000. In 2003, we launched a

program to insure municipal obligations in the secondary market. We currently have licenses in 45 U.S. states and the District of Columbia.

Since 2001, we have executed approximately 125 direct financial guaranty transactions, primarily the insurance of credit derivatives (other than single-name exposures). We expect to make greater use of insurance to deliver credit protection as we expand our direct financial guaranty business. In 2003, we executed eight direct financial guaranty insurance transactions, five in the municipal secondary markets and three new issue asset-backed transactions. We issued another direct financial guaranty insurance policy on a new issue of asset-backed securities in January 2004. Additionally, we see opportunities to expand this business internationally, particularly in project finance and structured finance. Our underwriting and business development professionals have extensive market relationships with issuers, investors, bankers and other professionals, which are crucial to this effort. We intend to capitalize on these relationships as we continue to expand our financial guaranty insurance business.

Financial Guaranty Reinsurance

The following table sets forth our financial guaranty reinsurance new business volume, as measured by the present value of gross premiums written by product line, for each of the periods presented:

	Year Ended December 31,		
	2003	2002	2001
	(\$ in millions)		
Municipal finance	\$ 116.8	\$ 68.6	\$ 44.3
Structured finance	28.2	50.9	34.1
Total	\$ 145.0	\$ 119.5	\$ 78.4

We began reinsuring financial guaranty obligations in 1988. Over the past fifteen years, we have established our presence as a leading provider of financial guaranty reinsurance. We reinsure business on both a treaty and facultative basis. Our treaties cover the full range of sectors in which our customers participate, including municipal finance, structured finance and international obligations. Historically, our net par outstanding has consisted primarily of municipal finance obligations reflecting the mix of business of our ceding company clients.

We intend to maintain our leading position in this market and grow our financial guaranty reinsurance business. Decisions by two major competitors to exit the market have significantly reduced reinsurance capacity at a time when we believe demand for financial guaranty reinsurance for this product is increasing due to strong growth in the primary market. We believe our commitment to this market, readiness to execute transactions, and financial and ratings strength afford us a significant opportunity to gain market share profitably.

Financial Guaranty Portfolio

The principal types of obligations covered by our financial guaranty direct and our financial guaranty reinsurance businesses are structured finance obligations and municipal finance obligations. Because both businesses involve similar risks, we analyze and monitor our financial guaranty direct portfolio and our financial guaranty reinsurance portfolio on a combined basis. In the tables that follow, our reinsurance par is reported on a one quarter lag due to the timing of receipt of reports prepared by our ceding companies. The following table sets forth our financial guaranty net par outstanding by product line as of December 31 for the years presented:

Net Par Outstanding By Product Line

	As of December 31,		
	2003	2002	2001
	(\$ in billions)		
Structured Finance:			
Direct	\$ 21.6	\$ 18.6	\$ 13.6
Reinsurance	13.3	12.4	13.3
Total structured finance	34.9	31.0	26.9
Municipal Finance:			
Direct	2.1	1.9	1.9
Reinsurance	50.5	47.5	46.4
Total municipal finance	52.6	49.4	48.3
Total net par outstanding	\$ 87.5	\$ 80.4	\$ 75.2

Structured Finance Obligations We insure and reinsure a number of different types of structured finance obligations, including the following:

Senior Layer CDOs These include securities primarily backed by pooled corporate debt obligations, such as corporate bonds, bank loans or loan participations, asset-backed securities, residential and commercial mortgage-backed securities and trust preferred securities. These securities are often issued in "tranches," with subordinated tranches providing credit support to the more senior tranches. Our financial guaranty exposures generally are to the more senior tranches of these issues. We have also written equity layer credit protection on CDOs, which exposures are reported in our other segment.

Consumer Receivables These include obligations backed by consumer receivables, such as residential mortgages, home equity loans and lines of credit, automobile loans and leases, credit card receivables and other consumer receivables. Credit support is generally derived from the cash flows generated by the underlying obligations, as well as property, automobile or equipment values as applicable. Additional credit protection to our exposure may be in the form of over-collateralization, excess spread, cash reserves, first loss letters of credit, subordinated securities or a combination of the foregoing.

Commercial Receivables These include obligations backed by commercial mortgages, equipment leases, business loans and trade receivables. Credit support is derived from the cash flows generated by the underlying obligations, as well as property or equipment values as applicable. Additional credit protection to our exposure may be in the form of over-collateralization, excess spread, cash reserves, first loss letters of credit, subordinated

securities or a combination of the foregoing. The properties backing commercial real estate-backed obligations include hotel properties, office buildings and warehouse properties.

Other Structured Finance Other structured finance exposures in our portfolio include bonds or other securities backed by assets not generally described in any of the other four categories.

Single Name Corporate Credit Derivatives These include credit derivative obligations wherein the underlying exposure is to the corporate debt, bank loan participations, trade receivables or other "borrowed money" obligations of a single corporate "reference entity." In early 2003, we substantially reduced the new single name corporate credit derivatives business we write and, in late 2003, we stopped writing this business. The remaining portfolio of single name corporate credit derivatives has an average remaining life of 1.7 years as of December 31, 2003.

The following table sets forth our new structured finance direct and reinsurance net par by bond type (stated as a percentage of total new structured finance direct and reinsurance net par) for the periods presented:

New Structured Finance Net Par by Bond Type

	Year Ended December 31,		
	2003	2002	2001
	(\$ in billions)		
Collateralized debt obligations	40.1%	42.5%	67.9%
Consumer receivables	33.3	35.6	20.0
Commercial receivables	19.6	11.7	3.0
Other structured finance	5.5	5.7	5.1
Single name corporate credit derivatives	1.5	4.5	4.0
Total	100.0%	100.0%	100.0%
Total new structured finance net par	\$ 10.2	\$ 12.3	\$ 10.7

The following table sets forth our structured finance direct and reinsurance net par outstanding by bond type (stated as a percentage of total structured finance direct and reinsurance net par outstanding) as of the dates indicated:

Structured Finance Net Par Outstanding by Bond Type

	As of December 31,		
	2003	2002	2001
	(\$ in billions)		
Collateralized debt obligations	46.1%	39.1%	32.2%
Consumer receivables	26.9	27.4	30.1
Commercial receivables	15.1	11.0	5.8
Other structured finance	5.3	7.0	12.0
Single name corporate credit derivatives	6.6	15.5	19.9
Total	100.0%	100.0%	100.0%
Total structured finance net par outstanding	\$ 34.9	\$ 31.0	\$ 26.9

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The table below shows our ten largest financial guaranty structured finance direct and reinsurance exposures by revenue source as a percentage of total financial guaranty net par outstanding as of December 31, 2003:

Ten Largest Structured Finance Exposures

	Net Par Amount Outstanding	Percent of Total Net Par Amount Outstanding	Internal Rating ⁽¹⁾
		(\$ in millions)	
SALS 2002-6 (CDO)	\$ 740	0.9%	AAA
Triplas CDO of ABS	625	0.7	AAA
Absolute CDO of ABS	594	0.7	AAA
Taurus 2001-06 (CDO)	554	0.6	A+
Sears Credit Card Master Trust 2002-3 Class A Credit Cards	550	0.6	AAA
Dresdner 2001-1 (CDO)	500	0.6	AAA
Houston CDO Portfolio 2000-1	470	0.5	AA
Bistro 2001-09 AAA Tranche (CDO)	450	0.5	AAA
Stars 2001-3 (CDO)	440	0.5	AAA
Merrill Lynch Synthetic CDO Taurus 8	440	0.5	AAA
Total of top ten exposures	\$ 5,363	6.1%	

(1) These ratings represent our internal assessment of the underlying credit quality of the insured obligations.

Municipal Finance Obligations We insure and reinsure a number of different types of municipal obligations, including the following:

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

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

Special Revenue Bonds These include college and university revenue bonds and housing revenue bonds relating to both single and multi-family housing, issued by states and localities, supported by cash flow and, in some cases, insurance from such entities as the Federal Housing Administration.

Healthcare Bonds These include both obligations for capital construction or improvement of healthcare facilities and obligations providing funds for equipment purchase, in both cases typically secured by an underlying note of the not-for-profit corporation that owns or is to own and/or operate the related healthcare facility or healthcare system. In addition to healthcare facilities, obligors in this category include a small number of health maintenance organizations and long-term care facilities.

Structured Municipal Bonds These are two risk-remote, excess of loss exposures to portfolios of healthcare and investor-owned utility municipal obligations generally described under "Healthcare Bonds" and "Other Municipal Bonds."

Other Municipal Bonds These include other debt issued, guaranteed or otherwise supported by U.S. national or local governmental authorities, as well as student loans, revenue bonds, investor-owned utility obligations and obligations of some not-for-profit organizations. Also included in this category are international municipal obligations, including the obligations of sovereign and sub-sovereign non-U.S. issuers, project finance transactions involving projects leased to or supported by payments from non-U.S. governmental or quasi-governmental entities, as well as other obligations having international aspects, but which otherwise would fall within the other described categories.

The following table sets forth our new municipal finance direct and reinsurance net par by bond type (stated as a percentage of total new municipal finance direct and reinsurance net par) for the years presented:

New Municipal Finance Net Par by Bond Type

	Year Ended December 31,		
	2003	2002	2001
	(\$ in billions)		
Tax-backed	39.2%	49.7%	52.2%
Municipal utilities	24.8	17.6	17.1
Special revenue	19.1	19.7	22.4
Healthcare	8.6	7.2	6.7
Structured municipal			0.1
Other municipal	8.3	5.8	1.5
Total	100.0%	100.0%	100.0%
Total new municipal finance net par	\$ 6.8	\$ 7.6	\$ 4.4

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The following table sets forth our municipal finance direct and reinsurance net par outstanding by bond type (stated as a percentage of total municipal finance direct and reinsurance net par outstanding) as of the dates indicated:

Municipal Finance Net Par Outstanding by Bond Type

	As of December 31,		
	2003	2002	2001
	(\$ in billions)		
Tax-backed	40.1%	39.5%	39.0%
Municipal utilities	21.1	21.1	22.5
Special revenues	17.1	17.2	17.4
Healthcare	10.9	11.5	11.6
Structured municipal	6.4	7.1	5.9
Other municipal	4.4	3.6	3.6
Total	100.0%	100.0%	100.0%
Total municipal finance net par outstanding	\$ 52.6	\$ 49.4	\$ 48.3

The table below shows our ten largest financial guaranty municipal finance direct and reinsurance exposures by revenue source as a percentage of total financial guaranty net par outstanding as of December 31, 2003:

Ten Largest Municipal Finance Exposures

	Net Par Amount Outstanding	Percent of Total Net Par Amount Outstanding	Internal Rating ⁽¹⁾
California State General Obligation & Leases	\$ 900	1.0%	BBB
New Jersey State General Obligation & Leases	724	0.8	AA-
Long Island Power Authority	721	0.8	A-
New York City General Obligation	697	0.8	A
Denver Colorado Airport System	632	0.7	A
Chicago Illinois General Obligation	595	0.7	A+
Jefferson County Alabama Sewer	567	0.7	A
Puerto Rico Electric Power Authority	555	0.7	A-
New York City Municipal Water Finance Authority	548	0.6	AA
New York State Metro Trans Auth Trans Revenue	539	0.6	A
Total of top ten exposures	\$ 6,478	7.4%	

(1) These ratings represent our internal assessment of the underlying credit quality of the insured obligations.

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Financial Guaranty Portfolio by Internal Rating

The following table sets forth our financial guaranty portfolio as of December 31, 2003 by internal rating:

Financial Guaranty Portfolio by Internal Rating

Rating Category ⁽¹⁾	Net Par Amount Outstanding	Percent of Total Net Par Amount Outstanding
(\$ in billions)		
AAA	\$ 26.2	29.9%
AA	17.6	20.1
A	29.9	34.2
BBB	12.3	14.1
Below investment grade	1.5	1.7
Total	\$ 87.5	100.0%

(1) These ratings represent our internal assessment of the underlying credit quality of the insured obligations.

Financial Guaranty Portfolio by Geographic Area

We are licensed to write financial guaranty coverage in 45 U.S. states and the District of Columbia. We have established a subsidiary in the United Kingdom and have applied to the Financial Services Authority for authorization for that subsidiary to write financial guaranty insurance and reinsurance. We intend to seek further authorization for this subsidiary to write financial guaranty insurance and reinsurance elsewhere in the European Union.

The following table sets forth the geographic distribution of our financial guaranty portfolio as of December 31, 2003:

Financial Guaranty Portfolio by Geographic Area

	Net Par Amount Outstanding	Percent of Total Net Par Amount Outstanding
(\$ in billions)		
United States:		
California	\$ 7.2	8.2%
New York	5.6	6.4
Texas	3.2	3.6
Illinois	2.8	3.2
Florida	2.8	3.2
Pennsylvania	2.2	2.5
New Jersey	2.0	2.3
Massachusetts	1.7	1.9
Puerto Rico	1.5	1.7
Washington	1.3	1.5

	Net Par Amount Outstanding	Percent of Total Net Par Amount Outstanding
Other states	18.2	20.8
Mortgage and structured	32.2	36.8
Total U.S.	80.7	92.1
International	6.8	7.9
Total	\$ 87.5	100.0%

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Financial Guaranty Portfolio by Issue Size

We seek broad coverage of the market by insuring and reinsuring small and large issues alike. The following table sets forth the distribution of our portfolio as of December 31, 2003 by original size of our exposure:

Financial Guaranty Portfolio by Issue Size

Original Par Amount Per Issue	Number of Issues	Percent of Total Number of Issues	Net Par Amount Outstanding	% of Total Net Par Amount Outstanding
(\$ in billions)				
Less than \$10.0 million	8,889	81.9%	\$ 5.0	5.7%
\$10.0 through \$24.9 million	883	8.1	9.6	11.0
\$25.0 through \$49.9 million	507	4.7	12.2	14.0
\$50.0 million and above	570	5.3	60.7	69.3
Total	10,849	100.0%	\$ 87.5	100.0%

Financial Guaranty Portfolio by Source

The following table sets forth our financial guaranty portfolio as of and for the nine months ended December 31, 2003 by source:

Financial Guaranty Portfolio by Source

	Gross Par In Force	Gross Par Written
(\$ in billions)		
Direct	\$ 25.3	\$ 7.0
FSA	22.5	4.8
MBIA	19.8	3.0
FGIC	12.6	0.6
Ambac	8.0	1.5
Other ceding companies	2.2	0.1
Total	\$ 90.4	\$ 17.0

Mortgage Guaranty

Mortgage guaranty reinsurance comprises the bulk of our in-force mortgage business. We have provided reinsurance of primary mortgage insurance and pool insurance in the United States on a quota share and excess of loss basis. Quota share reinsurance describes all forms of reinsurance in which the reinsurer shares in a proportional part of the original premiums and losses of the business ceded by the primary company (subject to a ceding commission). Excess of loss reinsurance refers to reinsurance which indemnifies the ceding company for that portion of the loss that exceeds an agreed-upon "retention." There has been a decrease in demand for our quota share mortgage guaranty reinsurance products over the last five years, as primary mortgage insurers have rebuilt their capital bases. This trend has not impacted our excess of loss business, which has remained relatively stable.

In the United Kingdom, we have been a leading provider of excess of loss reinsurance to lender captives and third-party insurers. The demand for MIG reinsurance in the United Kingdom has remained stable for the past several years. We have entered into multi-year reinsurance arrangements with several lenders and third-party insurers.

We have also participated in the mortgage reinsurance markets in Ireland, Hong Kong and Australia. We have participated in these markets on an excess of loss basis with high attachment points and believe that our risk of loss on these transactions is remote.

We have also written a small amount of U.S. commercial real estate residual value insurance and intend to expand this product line commencing in 2005. Commercial real estate residual value insurance guarantees payment at maturity of the balloon portion of a note secured by a mortgage on commercial property.

We are transitioning to a mortgage guaranty strategy that is consistent with our ratings objectives and that utilizes both our mortgage guaranty and our financial guaranty platforms to meet the specific needs of mortgage lenders and investors. As a result of this transition, we expect our mortgage guaranty business to be managed in a manner similar to our direct financial guaranty business.

Mortgage Portfolio

The following table sets forth our mortgage insurance and reinsurance risk in force by geographic region as of December 31, 2003:

Mortgage Guaranty Risk In Force By Geographic Region

	Risk In Force	Percent
	(\$ in millions)	
United States	\$ 452.2	20.6%
United Kingdom	1,329.5	60.4
Ireland	187.5	8.5
Hong Kong	198.7	9.0
Australia	32.6	1.5
Total	\$ 2,200.5	100.0%

The following tables set forth, for each geographic region (other than Australia, for which this information is not reported), details regarding our mortgage insurance and reinsurance risk in force as of December 31, 2003 based upon LTV:

Mortgage Guaranty LTV by Geographic Region

United States	Risk In Force	Percent
	(\$ in millions)	
Greater than 95%	\$ 22.3	5.0%
Greater than 90% but less than or equal to 95%	185.7	41.1
Greater than 85% but less than or equal to 90%	127.6	28.2
Greater than 80% but less than or equal to 85%	11.6	2.6
Less than or equal to 80%	9.2	2.0
LTV not reported	95.8	21.2
Total	\$ 452.2	100.0%

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United Kingdom	Risk In Force	Percent
	(\$ in millions)	
Greater than 95%	\$ 92.3	6.9%
Greater than 90% but less than or equal to 95%	464.0	34.9
Greater than 85% but less than or equal to 90%	321.7	24.2
Greater than 80% but less than or equal to 85%	189.9	14.3
Less than or equal to 80%	52.8	4.0
LTV not reported	208.8	15.7
Total	\$ 1,329.5	100.0%
	(\$ in millions)	
Ireland	Risk In Force	Percent
	(\$ in millions)	
Greater than 95%	\$ 3.3	1.7%
Greater than 90% but less than or equal to 95%	92.1	49.1
Greater than 85% but less than or equal to 90%	33.3	17.8
Greater than 80% but less than or equal to 85%	34.4	18.3
Less than or equal to 80%	24.4	13.0
Total	\$ 187.5	100.0%
	(\$ in millions)	
Hong Kong	Risk In Force	Percent
	(\$ in millions)	
Greater than 95%	\$ 0.2	0.1%
Greater than 90% but less than or equal to 95%	68.6	34.5
Greater than 85% but less than or equal to 90%	77.1	38.8
Greater than 80% but less than or equal to 85%	29.6	14.9
Less than or equal to 80%	23.2	11.7
Total	\$ 198.7	100.0%

The following table sets forth our mortgage guaranty risk in force as of December 31, 2003 by U.S. jurisdictions:

Mortgage Guaranty Insurance and Reinsurance Risk in Force by U.S. Jurisdictions

	Percent of U.S. Risk In Force
New York	8.3%
Florida	8.0
California	7.1
Texas	6.4
Georgia	4.2
Pennsylvania	4.1
New Jersey	3.5
Arizona	2.6

	Percent of U.S. Risk In Force
Maryland	2.4
North Carolina	2.2
Other	51.1
Total	100.0%

Other

We have participated in several lines of business that are reflected in our historical financial statements but that we have exited or are exiting in connection with this offering, including equity layer credit protection, trade credit reinsurance, title reinsurance, LA&H and auto residual value reinsurance. Also included in this segment is the impact of the affiliate reinsurance transactions described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Significant Affiliate Transactions."

Our equity layer credit protection business generally consists of first loss and mezzanine layer participations in credit derivatives or total rate of return swaps written on portfolios of primarily investment grade corporate credits and highly-rated classes of structured securities. We stopped writing new business in this line in early 2003. We have terminated a substantial portion of these transactions as of March 1, 2004.

Trade credit insurance protects sellers of goods and services from the risk of non-payment of trade receivables. We participated in this market as a reinsurer. We intend to cease writing new trade credit business in 2004. Subject to approval by the Maryland and Pennsylvania insurance departments, all of our trade credit business will be retroceded to ACE American Insurance Company, a subsidiary of ACE, effective April 1, 2004.

We have offered title reinsurance products derived from excess of loss and quota share reinsurance products, on both a treaty and facultative basis, in the United States. We have also provided reinsurance of legal indemnity insurance in the United Kingdom. ACE Capital Title Reinsurance Company, the company through which we have written U.S. title reinsurance business, has been sold to ACE, and our other title reinsurance business will be reinsured or transferred to a subsidiary of ACE in connection with this offering.

We participated in a limited number of LA&H reinsurance transactions, all of which were transferred, through assignment or retrocession, to subsidiaries of ACE. We stopped writing this business in late 2001.

Auto residual value reinsurance protects automobile lessors and balloon note lenders against the risk that the actual value of an automobile at lease end or loan maturity will be less than the projected residual value of the automobile. We stopped writing new business in this line in 2001. All of this business will be retroceded to ACE INA Overseas Insurance Company Ltd., a subsidiary of ACE, effective April 1, 2004 or commuted effective April 1, 2004.

Underwriting

The underwriting, operations and risk management guidelines, policies and procedures of our insurance and reinsurance subsidiaries are tailored to their respective businesses, providing multiple levels of credit review and analysis.

Exposure limits and underwriting criteria are established, as appropriate, for sectors and asset classes. Critical risk factors for proposed municipal finance exposures include, for example, the credit quality of the issuer, the type of issue, the repayment source, security pledged, the presence of restrictive covenants, and the issue's maturity. Underwriting consideration for exposures include (1) class, reflecting economic and social factors affecting that bond type, including the importance of the proposed project, (2) the financial management of the project and of the issuer, and (3) various legal and administrative factors.

Structured finance obligations generally present three distinct forms of risk: (1) asset risk, pertaining to the amount and quality of assets underlying an issue; (2) structural risk, pertaining to the extent to which an issue's legal structure provides protection from loss; and (3) execution risk, which is

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

Underwriting Procedures

Each insurance, facultative reinsurance and credit derivative transaction passing an initial underwriting "review," intended to test the desirability of the proposed exposure, is assigned to a team including relevant underwriting and legal personnel. Finance personnel review the proposed exposure for compliance with applicable accounting standards and investment guidelines. The team reviews the structure of the transaction, and the underwriter reviews credit issues pertinent to the particular line of business. In our structured financial guaranty and mortgage guaranty lines, underwriters generally apply computer models to stress cash flows in their assessment of the risk inherent in a particular transaction. For reinsurance transactions, stress model results may be provided by the primary insurer. Stress models may also be developed internally by our underwriting department and reflect both empirical research as well as information gathered from third parties, such as rating agencies, investment banks or servicers. Where warranted to assess a particular credit risk properly, we may perform a due diligence audit in connection with a transaction. A due diligence review will include, among other things, meetings with management, review of underwriting and operational procedures, file reviews, and review of financial procedures and computer systems. The structure of a transaction is also scrutinized from a legal perspective by in-house and, where appropriate, external counsel, and specialty legal expertise is consulted when our legal staff deems it appropriate.

Upon completion of underwriting analysis, the underwriter prepares a formal credit report that is submitted to an underwriting committee for review. We will not commit to assume any risk until the risk has been approved by the appropriate underwriting committee.

Treaty Underwriting

The procedures for underwriting treaty business differ somewhat from those for facultative reinsurance, as we make a forward commitment to reinsure business from a ceding company for a specified period of time. Although we have the ability to exclude certain classes or categories of risk from a treaty, we have a limited ability to control the individual risks ceded pursuant to the terms of the treaty. As a result, we enter into reinsurance treaties only with ceding companies with proven track records and after extensive underwriting due diligence with respect to the proposed cedent. Prior to entering into a reinsurance treaty, we meet with senior management, underwriters, risk managers, and accounting and systems personnel of the proposed cedent. We evaluate the ceding company's underwriting expertise and experience, capital position, in-force book of business, reserves, cash flow, profitability and financial strength. We actively monitor ceded treaty exposures. Collected data is evaluated regularly to detect ceded risks that are inconsistent with our expectations. If appropriate and permitted under the terms of the treaty, we add exclusions in response to risks identified during our evaluations. Our risk management department conducts periodic surveillance audits of each ceding company. The audits entail review of both underwriting and surveillance files, as well as meetings with

management. Information gathered during these audits is used to re-evaluate treaties at the time of renewal.

Risk Management

Our risk management personnel are responsible for transactional and treaty surveillance, insured portfolio management, risk syndication and claims administration. Risk management, in consultation with the chief underwriting officer, sets risk limits for each line of business and designates those risks which are to be excluded from our reinsurance treaty assumptions. Tailored surveillance strategies have been developed for each type of exposure, depending upon the credit risk inherent in the exposure, with a view to determining credit trends in the insured book and making recommendations on portfolio management and risk mitigation strategies, to the extent appropriate.

We may also seek to mitigate the risk inherent in our exposures through the purchase of third party reinsurance or retrocessions, and also periodically purchase derivative contracts to alleviate all or a portion of this risk.

Direct Businesses

We conduct surveillance procedures to closely track risk aggregations and monitor performance of each risk. For municipal risk, we have review schedules for each credit dependent on the underlying rating of the credit and the revenue type. Credits perceived to have greater risk profiles are reviewed more frequently than other credits or classes of credits which historically have had few defaults. In the event of credit deterioration of a particular exposure, we review the credit more frequently and take remedial action as permitted by the terms of the transaction.

For structured securities and certain mortgage risks, we generally collect data, often monthly or quarterly, and compare actual default and delinquency statistics to those generated by our models. To the extent that a transaction is performing materially below expectations, we seek to take steps to mitigate the potential for loss. Such steps include meetings with servicers, re-evaluation of loan files and, in the most extreme cases, removal of the servicer.

We have created computerized models to track performance of certain other large direct business lines including CDOs and credit derivatives on corporate debt. These systems incorporate risk tracking tools such as credit spreads and ratings which are obtained from third parties and incorporated into computerized risk tracking systems.

Reinsurance Businesses

Our risk management personnel take steps to ensure that the primary insurer is managing risk pursuant to the terms of the applicable reinsurance agreement. To this end, we conduct periodic audits of ceding companies. We may conduct additional surveillance audits during the year, at which time underwriting, surveillance and claim files of the ceding company are reviewed.

Closely Monitored Credits

The risk management department maintains a list of closely monitored credits ("CMC") to track those credits that we believe have a heightened risk of claim. The list includes both reinsurance and insurance business. Credits on the CMC are reviewed on an on-going basis, while the CMC itself is updated on a monthly basis and distributed to the risk management committee and to senior management. The CMC is divided into four categories: low priority (Category 1), medium priority (Category 2), high priority (Category 3), and claim paid or incurred (Category 4). Category 1 credits are fundamentally sound credits characterized by greater than normal risk. Additional risk may result from adverse circumstances at companies affiliated with an issuer, unfavorable market conditions or a

manageable degree of financial deterioration. Category 2 credits exhibit a weakening credit profile which may result in a loss. These credits may require active management by us or, in the case of reinsurance, the ceding company. The risk of further deterioration in the credit, combined with the uncertain amount and timing of possible loss, necessitate very close monitoring of the situation. Category 3 credits are those for which losses are likely to occur soon or are already in process. Within this category, claims are considered both probable and estimable and, as such, usually require the posting of case reserves. Category 4 credits are those for which all or substantially all of the claim has been paid or incurred. For these exposures we undertake to maximize recoveries and salvage.

Losses and Reserves

Reserve for losses and LAE includes case reserves, IBNR reserves and portfolio reserves. Case reserves are established when specific insured obligations are in or near default. Case reserves represent the present value of expected future loss payments and LAE, net of estimated recoveries but before considering ceded reinsurance from insured obligations that are in or near default. Financial guaranty insurance and reinsurance case reserves are discounted at 6%, which is the approximate taxable equivalent yield on our investment portfolio in all periods presented.

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. We record IBNR for mortgage guaranty reinsurance within our mortgage guaranty segment and for title reinsurance, auto residual value reinsurance and trade credit reinsurance within our other segment.

We record portfolio reserves for financial guaranty insurance and reinsurance, credit derivatives and mortgage guaranty reinsurance. Portfolio reserves are established with respect to the portion of our business for which case reserves have not been established. Portfolio reserves are established in an amount equal to the portion of actuarially estimated ultimate losses related to premiums earned to date as a percentage of total expected premiums for that in-force business. Actuarially estimated ultimate losses on financial guaranty exposures are developed considering the net par outstanding of each insured obligation, taking account of the probability of future default, the expected timing of the default and the expected recovery following default. These factors vary by type of issue (for example municipal, structured finance or corporate), current credit rating and remaining term of the underlying obligation and are principally based on historical data obtained from rating agencies. Actuarially estimated ultimate losses on mortgage guaranty reinsurance are principally determined based on historical industry loss experience, net of expected recoveries. During an accounting period, portfolio reserves increase or decrease based on changes in the aggregate net amount at risk and the probability of default resulting from changes in credit quality of insured obligations, if any.

We update our estimates of loss and LAE reserves quarterly. Loss assumptions used in computing loss and LAE reserves are updated periodically for emerging experience, and any resulting changes in reserves are recorded as a charge or credit to earnings in the period such estimates are changed. Due to the inherent uncertainties of estimating loss and LAE reserves, actual experience may differ from the estimates reflected in our combined financial statements, and the differences may be material.

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The following table provides a reconciliation of the beginning and ending balances of the reserve for losses and LAE, including case, IBNR and portfolio reserves:

	For the years ended December 31,		
	2003	2002	2001
	(\$ in thousands)		
Balance as of January 1	\$ 458,831	\$ 401,079	\$ 170,973
Less reinsurance recoverable	(100,826)	(70,092)	(14,836)
Net balance as of January 1	358,005	330,987	156,137
Incurred losses and loss adjustment expenses:			
Current year	105,623	156,626	164,881
Prior years	38,987	(7,546)	12,661
Transfer/novation of life, accident and health reinsurance reserves		(28,820)	
	144,610	120,260	177,542
Loss and loss adjustment expenses paid and recovered			
Current year	30,702	69,157	6,726
Prior years	69,133	20,633	22,349
	99,835	89,790	29,075
Value of reinsurance business assumed	(6,096)	(6,097)	26,419
Unrealized foreign exchange gain/(loss) on reserves revaluation	(3,785)	(2,645)	36
Net balance as of December 31	400,469	358,005	330,987
Plus reinsurance recoverable	122,124	100,826	70,092
Balance as of December 31	\$ 522,593	\$ 458,831	\$ 401,079

Ratings

As of the date of this prospectus, our insurance company subsidiaries have been assigned the following insurance financial strength ratings:

	Moody's*	S&P	Fitch
Assured Guaranty Corp.	Aa2(Excellent)	AAA(Extremely Strong)**	Not rated***
AGRI	Aa3(Excellent)	AA(Very Strong)	AA(Very Strong)
AGRO	Aa3(Excellent)	AA(Very Strong)	AA(Very Strong)
Assured Guaranty Mortgage	Aa3(Excellent)	AA(Very Strong)	AA(Very Strong)

*

On April 9, 2004, Moody's placed the insurance financial strength ratings of our insurance subsidiaries under review for possible upgrade. Moody's, however, indicated that the upgrades under consideration would most likely not exceed one notch ("Aa1" (Excellent), the second highest of its 21 ratings categories, for Assured Guaranty Corp. and "Aa2" (Excellent), the third highest of its 21 ratings categories, for our other principal insurance subsidiaries).

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Assured Guaranty Corp.'s S&P ratings outlook is "Negative."

ACE and Fitch both agreed to withdraw Assured Guaranty Corp.'s Fitch rating.

A "AAA" (Extremely Strong) rating is the highest and "AA" (Very Strong) is the third highest ranking of the 21 ratings categories used by S&P. "Aa2" (Excellent) is the third highest ranking and "Aa3" (Excellent) is the fourth highest ranking of 21 ratings categories used by Moody's. "AA" (Very Strong) is the third highest ranking of the 24 ratings categories used by Fitch. A financial strength rating is an opinion with respect to an insurer's ability to pay under its insurance policies and contracts in accordance with their terms. The opinion is not specific to any particular policy or contract. Financial strength ratings do not refer to an insurer's ability to meet non-insurance obligations and are not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold, or sell any security issued by an insurer, including our common shares.

In addition, AGRI and AGRO carry financial enhancement ratings ("FER") from S&P of AA. A financial enhancement rating reflects not only an insurer's perceived ability to pay claims but also its perceived willingness to pay claims. The ratings of AGRO and Assured Guaranty Mortgage are dependent upon support in the form of keepwell agreements. AGRI provides a keepwell to its subsidiary, AGRO. AGRO provides a keepwell to its subsidiary, Assured Guaranty Mortgage. Pursuant to the terms of these agreements, each of AGRI and AGRO agrees to provide funds to their respective subsidiaries sufficient for those subsidiaries to meet their obligations.

The major rating agencies have developed and published rating guidelines for rating financial guaranty and mortgage guaranty insurers and reinsurers. The financial strength ratings assigned by S&P, Moody's and Fitch are based upon factors relevant to policyholders and are not directed toward the protection of investors in our common shares. The rating criteria used by the rating agencies in establishing these ratings include consideration of the sufficiency of capital resources to meet projected growth (as well as access to such additional capital as may be necessary to continue to meet applicable capital adequacy standards), the company's overall financial strength, and demonstrated management expertise in financial guaranty and traditional reinsurance, credit analysis, systems development, marketing, capital markets and investment operations. Obligations insured by Assured Guaranty Corp. generally are rated AAA and Aa2 by S&P and Moody's, respectively, by virtue of such insurance. These ratings reflect only the views of the respective rating agencies and are subject to revision or withdrawal at any time. On April 9, 2004, Moody's placed the insurance financial strength ratings of our insurance subsidiaries under review for possible upgrade. Moody's, however, indicated that the upgrades under consideration would most likely not exceed one notch ("Aa1" (Excellent), the second highest of its 21 ratings categories, for Assured Guaranty Corp. and "Aa2" (Excellent), the third highest of its 21 ratings categories, for our other principal insurance subsidiaries). We are also in discussions with S&P regarding our ratings, including the impact on our ratings of the Formation Transactions, this offering and our new business strategy. As a result, the ratings assigned to our insurance subsidiaries by S&P may change at any time.

The ratings agencies will grant credit to primary companies in their calculations of required capital and single risk limits for reinsurance ceded. The amount of credit is a function of the financial strength rating of the reinsurer. For example, S&P has established the following reinsurance credit for business ceded to a monoline reinsurer:

Ceding Company Rating	Monoline Reinsurer Rating			
	AAA	AA	A	BBB
AAA	100%	70%	50%	n/a
AA	100	75	70	50%
A	100	80	75	70

Below A: Not applicable.

For reinsurance ceded to a multiline reinsurer, S&P recently has re-examined its methodology for the determination of reinsurance credit. In the course of its examination, S&P considered the effect of having both monoline and multiline companies in the industry, determining that multiline reinsurers had not demonstrated sufficient commitment to participation in the industry and occasionally had handled claims for financial guaranty reinsurance as they handle claims in their other business lines. S&P therefore determined that no rating agency reinsurance credit would be accorded cessions to multiline reinsurance companies that had not demonstrated their willingness and ability to make timely payment, which willingness and ability is measured by a FER from S&P. Both of AGRI and AGRO, as multiline reinsurers, have requested and received FERs of "AA." FERs are assigned by S&P to multiline insurers requesting the rating who meet stringent criteria identifying the company's capacity

and willingness to pay claims on a timely basis. S&P has established the following reinsurance credit for business ceded to a multiline reinsurer carrying an FER:

Ceding Company Rating	Multiline Reinsurer Rating			
	AAA	AA	A	BBB
AAA	95%	65%	45%	n/a
AA	95	70	65	45%
A	95	75	70	65

Below A: Not applicable.

Investments

Our principal objectives in managing our investment portfolio are: (1) to preserve our subsidiaries' financial strength ratings; (2) to maximize total after-tax return in a risk controlled investment approach; (3) to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and (4) to manage investment risk within the context of the underlying portfolio of insurance risk. Investment guidelines at each of our operating subsidiaries are tailored to the needs of the subsidiary, and seek to meet applicable regulatory requirements, to maintain an asset mix consistent with the subsidiary's financial strength ratings, to maximize after-tax return in a risk-controlled manner and to maintain sufficient liquidity to cover unexpected stress in the applicable insurance portfolio.

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: (1) securities whose market values have declined by 20% or more below amortized cost for a continuous period of at least six months; (2) recent credit downgrades of the applicable security or the issuer by rating agencies; (3) the financial condition of the applicable issuer; (4) whether scheduled interest payments are past due; and (5) 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 in accumulated other comprehensive income in shareholder's equity on our combined balance sheets. If we believe the decline is "other than temporary," we write down the carrying value of the investment and record a loss on our statements of operations. Our assessment of a decline in value includes management's current judgment of the factors noted above. If that judgment changes in the future, we may ultimately record a loss after having originally concluded that the decline in value was temporary.

As of December 31, 2003, we had \$0 of below investment grade securities or non-rated securities in our investment portfolio. For additional information regarding our investments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Investment Portfolio."

We have retained Lazard Freres Asset Management and Hyperion Capital Management, Inc. to manage our investment portfolio. These investment managers have discretionary authority over our investment portfolio within the limits of our investment guidelines. We compensate each of these managers based upon a fixed percentage of the market value of our portfolio. During the years ended December 31, 2003, 2002 and 2001, we paid aggregate investment management fees of \$1.8 million, \$1.6 million and \$1.5 million to these managers.

Competition

Our principal competitors in the market for financial guarantees are Ambac, FGIC, FSA and MBIA, which are larger than we are, as well as recent entrants XL Capital and CDC IXIS, all of which have AAA and Aaa ratings from S&P and Moody's. Based on shareholders' equity, we are larger than XL Capital and CDC IXIS. Banks, smaller and lower rated financial guaranty insurance companies and multiline insurers and reinsurers also participate in the broader credit enhancement market. The

principal competitive factors are: (1) premium rates; (2) conditions precedent to the issuance of a policy related to the structure and security features of a proposed bond issue; (3) the financial strength ratings of the guarantor; and (4) the quality of service and execution provided to issuers, investors and other clients of the issuer. Financial guaranty insurance also competes domestically and internationally with other forms of credit enhancement, including the use of senior and subordinated tranches of a proposed structured finance obligation and/or overcollateralization or cash collateral accounts, as well as more traditional forms of credit support.

There are relatively few companies providing financial guaranty reinsurance. Our principal competitors in the financial guaranty reinsurance market are Radian Reinsurance Inc., RAM Reinsurance Company Ltd., Swiss Reinsurance Company, Tokio Marine & Fire Insurance Co., Ltd. and XL Financial Assurance Ltd. AXA Reinsurance Finance, S.A., discontinued its financial guaranty reinsurance business in 2002 and is currently in runoff. In 2002, American Reinsurance Company announced its decision to exit the financial guaranty reinsurance market. In February 2004, MBIA, RenaissanceRe Holdings Ltd., Koch Financial Corporation and PartnerRe Ltd. formed a new Bermuda-based financial guaranty reinsurance company, Channel Reinsurance Ltd., which has been rated "Aaa" by Moody's and "AAA" by S&P. Competition in the financial guaranty reinsurance business is based upon many factors, including overall financial strength, pricing, service and evaluation of claims-paying ability by the major rating agencies.

The U.S. private mortgage insurance industry consists of eight active mortgage guaranty insurers: CMG Mortgage Insurance Company, General Electric Mortgage Insurance Company, Mortgage Guaranty Insurance Company, PMI Mortgage Insurance Co., United Guaranty Residential Insurance Company, Radian Guaranty Inc., Republic Mortgage Insurance Company and Triad Mortgage Insurance Company. These mortgage guaranty insurers do not use a material amount of third-party reinsurance. They do, however, employ various risk-sharing arrangements with their affiliated companies. In addition, lender-owned "captive" companies are a significant source of reinsurance capacity for the industry. In the United Kingdom, we face competition from affiliates of U.S. private mortgage guaranty insurers, which primarily write excess of loss reinsurance for MIG captives.

Regulation

General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Reinsurers are generally subject to less direct regulation than primary insurers. We are subject to extensive regulation under applicable statutes in the United States and the United Kingdom. In Bermuda, we operate under a relatively less intensive regulatory regime.

United States

Assured Guaranty has three operating insurance subsidiaries domiciled in the United States, which we refer to collectively as the "Assured Guaranty U.S. Subsidiaries."

Assured Guaranty Corp. is a Maryland-domiciled insurance company licensed to write financial guaranty insurance and reinsurance (and in some states casualty, surety and other lines) in 45 U.S. states and the District of Columbia jurisdictions. Assured Guaranty Corp. has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed. Assured Guaranty Corp. is also licensed as a Class 3 insurer in Bermuda (Assured Guaranty Corp. is subject to certain Bermuda laws including restrictions on payment of dividends, return of capital and distributions). Assured Guaranty Risk Assurance Company, a wholly-owned subsidiary of Assured Guaranty Corp., is a Maryland-domiciled and licensed insurance company. It is licensed to conduct

surety business. To date, it has not transacted any business. Assured Guaranty (UK) is also a wholly-owned subsidiary of Assured Guaranty Corp.

Assured Guaranty Mortgage is a New York corporation licensed as a mortgage guaranty insurer in the State of New York and in the District of Columbia and thereby is authorized solely to transact the business of mortgage guaranty insurance and reinsurance. Assured Guaranty Mortgage is an approved or accredited reinsurer in the States of California, Illinois and Wisconsin.

Insurance Holding Company Regulation

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

Change of Control

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

State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including licensing these companies to transact business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, regulating investments and dividends, and, in certain instances, approving policy forms and related materials and approving premium rates. State insurance laws and regulations require the Assured Guaranty U.S. Subsidiaries to file financial statements with insurance departments everywhere they are licensed, authorized or accredited to conduct insurance business, and their operations are subject to examination by those departments at any time. The Assured Guaranty U.S. Subsidiaries prepare statutory financial statements in accordance with Statutory Accounting Practices, or SAP, and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Market conduct examinations generally are carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners.

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Financial examinations are conducted by the state of domicile of the insurer. The Maryland Insurance Administration conducts a periodic examination of insurance companies domiciled in Maryland every five years. During 2003, the Maryland Insurance Administration completed its field work in connection with a five-year examination of Assured Guaranty for the period from 1997 through 2001. The Report on Financial Examination, issued by the Maryland Insurance Administration on October 10, 2003 in connection with such examination, did not contain any materially adverse findings. The New York Insurance Department, the regulatory authority of the domiciliary jurisdiction of Assured Guaranty Mortgage, conducts a periodic examination of insurance companies domiciled in New York, also at five-year intervals. During 2003, the New York Insurance Department completed its field work in connection with its examination of Assured Guaranty Mortgage for the period from 1997 through 2002. The report on the examination, which is currently in draft form, does not contain any materially adverse findings.

The terms and conditions of reinsurance agreements generally are not subject to regulation by any U.S. state insurance department with respect to rates. As a practical matter, however, the rates charged by primary insurers do have an effect on the rates that can be charged by reinsurers.

State Dividend Limitations

Maryland. The principal source of cash for the payment of debt service and dividends by Assured Guaranty is the receipt of dividends from Assured Guaranty Corp. Under current Maryland insurance law, as it applies to Assured Guaranty Corp., any proposed payment of a dividend or distribution may only be paid out of "earned surplus." "Earned surplus" is defined as the part of surplus that, after deduction of all losses, represents the net earnings, gains or profits that have not been distributed to shareholders as dividends, transferred to stated capital, transferred to capital surplus, or applied to other purposes permitted by law, but does not include unrealized capital gains or reevaluation of assets. If a dividend or distribution is an "extraordinary dividend," it must be reported to, and approved by, the Insurance Commissioner prior to payment. An "extraordinary dividend" is defined to be any dividend or distribution to stockholders, such as Assured Guaranty, which together with dividends paid during the preceding twelve months exceeds the lesser of 10% of an insurance company's policyholders' surplus at the preceding December 31 or 100% of Assured Guaranty Corp.'s adjusted net investment income during that period. Further, an insurer may not pay any dividend or make any distribution to its shareholders unless the insurer notifies the Insurance Commissioner of the proposed payment within five business days following declaration and at least ten days before payment. The Insurance Commissioner may declare that such dividend not be paid if the Commissioner finds that the insurer's policyholders' surplus would be inadequate after payment of the dividend or could lead the insurer to a hazardous financial condition. As of December 31, 2003, the maximum amount available during 2004 for the payment of dividends by Assured Guaranty Corp. which would not be characterized as "extraordinary dividends" was approximately \$25.6 million.

New York. Under the New York Insurance Law, Assured Guaranty Mortgage may declare or pay any dividend only out of "earned surplus," which is defined as that portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital, capital surplus or contingency reserves, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. Additionally, no dividend may be declared or distributed in an amount which, together with all dividends declared or distributed by it during the preceding twelve months, exceeds the lesser of 10% of Assured Guaranty Mortgage's statutory surplus as shown on its latest statutory financial statement on file with the New York Superintendent of Insurance, or 100% of Assured Guaranty Mortgage's adjusted net investment income during that period, unless, upon prior application, the Superintendent approves a greater dividend or distribution after finding that the company will retain sufficient surplus

to support its obligations and writings. As of December 31, 2003, Assured Guaranty Mortgage had negative unassigned funds and therefore cannot pay dividends during 2004.

Contingency Reserves

In accordance with Maryland law and regulations, Assured Guaranty Corp. maintains a contingency reserve for the protection of policyholders against the effect of adverse economic cycles. The contingency reserve is maintained for each obligation and is equal to the greater of 50% of the premiums written or a percentage of principal guaranteed (which percentage varies from 0.55% to 2.5% depending on the nature of the asset). The contingency reserve is put up over a period of either 15 or 20 years, depending on the nature of the obligation, and then taken down over the same period of time. The contingency reserve may be maintained net of reinsurance.

Under the New York Insurance Law, Assured Guaranty Mortgage must establish a contingency reserve to protect policyholders against the effect of adverse economic cycles. This reserve is established out of net premiums (gross premiums less premiums returned to policyholders) remaining after the statutory unearned premium reserve is established. Contributions to the contingency reserve must equal 50% of remaining earned premiums and, except as otherwise approved by the Superintendent of Insurance, must be maintained in the contingency reserve for a period of 120 months. Reinsurers are required to establish a contingency reserve equal to their proportionate share of the reserve established by the ceding company. Assured Guaranty Mortgage's contingency reserve as of December 31, 2003 met these requirements.

Risk-to-Capital Requirements

Under the New York Insurance Law, Assured Guaranty Mortgage's total liability, net of applicable reinsurance, under its aggregate insurance policies may not exceed 25 times its total policyholders' surplus, commonly known as the "risk-to-capital" requirement. As of December 31, 2003, the consolidated risk-to-capital ratio for Assured Guaranty Mortgage was below the limit.

Investments

The Assured Guaranty U.S. Subsidiaries are subject to laws and regulations that require diversification of their investment portfolio and limit the amount of investments in certain asset categories, such as below investment grade fixed maturity securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, would require divestiture of such non-qualifying investments. We believe that the investments made by the Assured Guaranty U.S. Subsidiaries complied with such regulations as of December 31, 2003. In addition, any investment must be approved by the insurance company's board of directors or a committee thereof that is responsible for supervising or making such investment.

Operations of Our Non-U.S. Insurance Subsidiaries

The insurance laws of each state of the United States and of many other countries regulate or prohibit the sale of insurance and reinsurance within their jurisdictions by unlicensed or non-accredited insurers and reinsurers. None of Assured Guaranty (UK), AGRI or AGRO is admitted to do business in the United States. We do not intend that Assured Guaranty (UK), AGRI or AGRO will maintain offices or solicit, advertise, settle claims or conduct other insurance activities in any jurisdiction in the United States where the conduct of such activities would require it to be admitted or authorized.

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers' business operations are affected by regulatory requirements in various states of the United States governing "credit for reinsurance" which are imposed on their ceding companies. In general, a

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

Bermuda

Each of AGRI and AGRO, our "Bermuda Subsidiaries," is an insurance company registered and licensed as a "Class 3 insurer" and a "long-term insurer" under the Insurance Act 1978 of Bermuda. Assured Guaranty Corp. is permitted under a revocable permit granted under the Companies Act 1981 of Bermuda (the "Companies Act") to engage in and carry on trade and business limited to engaging in certain non-U.S. financial guarantee insurance and reinsurance outside Bermuda from a principal place of business in Bermuda, subject to compliance with the conditions attached to the permit and relevant provisions of the Companies Act (including having a Bermuda principal representative for the Companies Act purposes, restrictions on activities in Bermuda, publication and filing of prospectuses on public offerings of securities, registration of charges against its assets and certain winding up provisions). Assured Guaranty Corp. is also licensed as a Class 3 insurer in Bermuda. The Insurance Act 1978 of Bermuda, amendments thereto and related regulations (collectively, the "Insurance Act") impose on insurance companies certain solvency and liquidity standards; certain restrictions on the declaration and payment of dividends and distributions; certain restrictions on the reduction of statutory capital; certain restrictions on the winding up of long-term insurers; and certain auditing and reporting requirements and also the need to have a principal representative and a principal office (as understood under the Insurance Act) in Bermuda. The Insurance Act grants to the Bermuda Monetary Authority the power to cancel licenses, supervise, investigate and intervene in the affairs of insurance companies and in certain circumstances share information with foreign regulators. Class 3 insurers are authorized to carry on general insurance business (as understood under the Insurance Act), subject to conditions attached to the license and to compliance with minimum capital and surplus requirements, solvency margin, liquidity ratio and other requirements imposed by the Insurance Act. Long-term insurers are permitted to carry on long-term business (as understood under the Insurance Act) subject to conditions attached to the license and to similar compliance requirements and the requirement to maintain its long-term business fund (a segregated fund). Each of AGRI and AGRO is required annually to file statutorily mandated financial statements and returns, audited by an independent auditor approved by the Bermuda Monetary Authority, together with an annual loss reserve opinion of a Bermuda Monetary Authority-approved loss reserve specialist and the required actuary's certificate with respect to the long-term business. Assured Guaranty Corp. has an exemption from such filings for certain financial years, subject to conditions and the current exemption expiring for the 2003 financial year ending December 31, 2003.

The Bermuda Monetary Authority must approve all issuances and transfers of shares in AGRI and AGRO (as well as Assured Guaranty; see "Regulation Bermuda Certain Other Bermuda Law Considerations"). Accordingly, we have applied for approval from the Bermuda Monetary Authority for the proposed transfer of shares in AGRI and AGRO. Certain provisions of services and office space in Bermuda by ACE affiliated companies will require specific licenses and approvals by the Minister of Finance of Bermuda or other Bermuda regulatory authority. Under a condition to its permit granted under the Companies Act, Assured Guaranty Corp. must inform the Minister of Finance of any change in its beneficial ownership within 14 days of the occurrence of such change.

Restrictions on Dividends and Distributions

The Insurance Act limits the declaration and payment of dividends and other distributions by AGRI, AGRO and Assured Guaranty Corp.

Under the Insurance Act:

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

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

With respect to the declaration and payment of dividends:

- (a) the insurer may not declare or pay any dividends during any financial year if it would cause the insurer to fail the applicable solvency margin or liquidity ratio (the "relevant margins");
- (b) if the insurer failed to meet any of its relevant margins on the last day of any financial year the insurer may not without the prior approval of the Bermuda Monetary Authority declare or pay any dividends during the next financial year; and
- (c) a Class 3 insurer which at any time fails to meet its general business solvency margin may not declare or pay any dividend until the failure is rectified, and also in such circumstances the Class 3 insurer must report, within 30 days after becoming aware of its failure or having reason to believe that such failure has occurred, to the Bermuda Monetary Authority giving particulars of the circumstances leading to the failure and the manner and time in which the Class 3 insurer intends to rectify the failure.

A long-term insurer may not:

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

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

Certain Other Bermuda Law Considerations

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

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

Common shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda, which regulates the sale of securities in Bermuda. In addition, the Bermuda Monetary Authority must approve all issuances and transfers of shares of a Bermuda exempted company. The Bermuda Monetary Authority has issued its permission for the issue and free transferability of the common shares being offered pursuant to this prospectus, as long as the shares are listed on an appointed stock exchange (including the New York Stock Exchange), to and among persons who are non-residents of Bermuda for exchange control purposes. In addition, we will deliver to and file a copy of this prospectus with the Registrar of Companies in Bermuda in accordance with Bermuda law. The Bermuda Monetary Authority, the Bermuda Minister of Finance and the Bermuda Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus.

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

Special considerations apply to our Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates or working resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate is available who meets the minimum standards for the position. The Bermuda government has announced a policy that places a six-year term limit on individuals with work permits, subject to specified exemptions for persons deemed to be key employees. Currently, all of our Bermuda-based professional employees who require work permits have been granted provisional permits by the Bermuda government. This includes the following key employees: Messrs. Frederico, Mills, Michener and Samson, each of whom has received a provisional work permit.

United Kingdom

General

Since December 1, 2001, the regulation of the financial services industry in the United Kingdom has been consolidated under the Financial Services Authority ("FSA UK"). In addition, the regulatory

regime in the United Kingdom must comply with certain European Union ("EU") directives binding on all EU member states.

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

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

Assured Guaranty (UK) has applied to the FSA UK for authorization to effect and carry out certain classes of non-life insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). If granted, this scope of permission will be sufficient to enable Assured Guaranty (UK) to effect and carry out financial guaranty insurance and reinsurance.

Assuming that Assured Guaranty (UK) becomes an authorized insurer, the insurance and reinsurance businesses of Assured Guaranty (UK) will be subject to close supervision by the FSA UK. The FSA UK currently is seeking to strengthen its requirements for senior management arrangements, systems and controls of insurance and reinsurance companies under its jurisdiction and intends to place an increased emphasis on risk identification and management in relation to the prudential regulation of insurance and reinsurance business in the United Kingdom. There are a number of proposed changes to the FSA UK's rules that will affect insurance and reinsurance companies authorized in the U.K. For example, the FSA UK currently is in consultation on a number of proposals, including the regulation of the sale of general insurance, insurance mediation, capital adequacy and proposals aimed at ensuring adequate diversification of an insurer's or reinsurer's exposures to any credit risks of its reinsurers. Changes in the scope of the FSA UK's regulation may have an adverse impact on the potential business operations of Assured Guaranty (UK).

Assured Guaranty Finance Overseas is not authorized as an insurer. It is authorized by the FSA UK as a "Category D" company to carry out designated investment business activities in that it may "advise on investments (except on pension transfers and pension opt outs)" relating to most investment instruments. In addition, it may arrange or bring about transactions in investments and make "arrangements with a view to transactions in investments." It should be noted that Assured Guaranty Finance Overseas does not itself take risk in the transactions it arranges or places, and may not hold funds on behalf of its customers.

Supervision

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

The FSA UK has adopted a risk-based approach to the supervision of insurance companies. Under this approach, the FSA UK periodically performs a formal risk assessment of insurance companies or groups carrying on business in the U.K. which varies in scope according to the risk profile of the insurer. The FSA UK performs its risk assessment by analyzing information which it receives during the normal course of its supervision, such as regular prudential returns on the financial position of the insurance company, or which it acquires through a series of meetings with senior management of the insurance company. After each risk assessment, the FSA UK will inform the insurer of its views on the insurer's risk profile. This will include details of any remedial action that the FSA UK requires and the likely consequences if this action is not taken.

Solvency Requirements

The Interim Prudential Sourcebook for Insurers requires that insurance companies maintain a margin of solvency at all times in respect of any general insurance undertaken by the insurance company, the calculation of which depends on the type and amount of insurance business a company writes. The method of calculation of the solvency margin is set out in the Interim Prudential Sourcebook for Insurers, and for these purposes, all of the insurer's assets and liabilities are subject to specified valuation rules. Failure to maintain the required solvency margin is one of the grounds on which the wide powers of intervention conferred upon the FSA UK may be exercised.

To the extent that the amount of premiums for such classes exceed certain specified minimum thresholds, each insurance company writing property, credit and other specified categories of insurance or reinsurance business is required by the Interim Prudential Sourcebook for Insurers to maintain an equalization reserve for the financial years ending on or after December 23, 1996 calculated in accordance with the provisions of the Interim Prudential Sourcebook for Insurers.

These solvency requirements have recently been amended in order to implement the European Union's "Solvency I" directives. These new rules come into effect on January 1, 2004.

In addition, an insurer (other than a company conducting only reinsurance business) is required to perform and submit to the FSA UK a solvency margin calculation return in respect of its ultimate parent. This return is not part of an insurer's own solvency return and hence will not be publicly available. Although there is no requirement that the parent solvency calculation show a positive result, the FSA UK is required to take action where it considers that the solvency of the insurance company is or may be jeopardized due to the group solvency position. Further, an insurer is required to report in its annual returns to the FSA UK all material related party transactions (e.g., intragroup reinsurance, whose value is more than 5% of the insurer's general insurance business amount). However, the FSA UK has published proposals for the implementation of the EU's Financial Groups Directive which includes a requirement for insurance groups to hold an amount of capital indicated in the calculation of the parent company's solvency margin at the European Economic Area parent level for the financial years beginning in 2005. The purpose of these proposals is to prevent leveraging of capital arising from involvements in other group insurance firms. The FSA UK has stated that it will phase in these proposals. Given the current structure of the group of which Assured Guaranty (UK) will be a member, this proposed regulatory obligation would not apply to Assured Guaranty (UK)'s parent, because it is incorporated in Bermuda.

Restrictions on Dividend Payments

U.K. company law prohibits Assured Guaranty (UK) from declaring a dividend to its shareholders unless it has "profits available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the FSA UK requires the maintenance of each insurance company's

solvency margin within its jurisdiction. The FSA UK's rules require Assured Guaranty Finance Overseas, and will require Assured Guaranty (UK) once authorized, to notify the FSA UK of any proposed or actual payment of a dividend that is greater than forecast in the business plans submitted with their respective applications for authorization. Any such payment or proposal could result in regulatory intervention. In addition, the FSA UK requires authorized insurance companies to notify it in advance of any significant dividend payment.

Reporting Requirements

U.K. insurance companies must prepare their financial statements under the Companies Act of 1985 (as amended), which requires the filing with Companies House of audited financial statements and related reports. In addition, U.K. insurance companies are required to file regulatory returns with the FSA UK, which include a revenue account, a profit and loss account and a balance sheet in prescribed forms. Under the Interim Prudential Sourcebook for Insurers, audited regulatory returns must be filed with the FSA UK within two months and 15 days of the financial year end (or three months where the delivery of the return is made electronically).

Supervision of Management

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

Change of Control

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

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

Intervention and Enforcement

The FSA UK has extensive powers to intervene in the affairs of an authorized person, culminating in the ultimate sanction of the removal of authorization to carry on a regulated activity. FSMA imposes on the FSA UK statutory obligations to monitor compliance with the requirements imposed by FSMA, and to enforce the provisions of FSMA related rules made by the FSA UK. The FSA UK has power, among other things, to enforce and take disciplinary measures in respect of breaches of both the Interim Prudential Sourcebook for Insurers and breaches of the conduct of business rules generally applicable to authorized persons.

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

"Passporting"

EU directives allow Assured Guaranty Finance Overseas, and will allow Assured Guaranty (UK), once authorized, to conduct business in EU states other than the United Kingdom in compliance with the scope of permission granted these companies by FSA UK without the necessity of additional licensing or authorization in other EU jurisdictions. This ability to operate in other jurisdictions of the EU on the basis of home state authorization and supervision is sometimes referred to as "passporting." Insurers may operate outside their home member state either on a "services" basis or on an "establishment" basis. Operating on a "services" basis means that the company conducts permitted businesses in the host state without having a physical presence there, while operating on an establishment basis means the company has a branch or physical presence in the host state. In both cases, a company remains subject to regulation by its home regulator, and not by local regulatory authorities, although the company nonetheless may have to comply with certain local rules. In addition to EU member states, Norway, Iceland and Liechtenstein (members of the broader European Economic Area) are jurisdictions in which this passporting framework applies. Assured Guaranty (UK) intends to seek to operate on a passport basis throughout the European Union; Assured Guaranty Finance Overseas operates on a services basis in Austria, Belgium, Finland, France, Germany, the Republic of Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain and Sweden.

Fees and Levies

Assuming it becomes an authorized insurer in the United Kingdom, Assured Guaranty (UK) will be subject to FSA UK fees and levies based on Assured Guaranty (UK)'s gross written premiums. The FSA UK also requires authorized insurers to participate in an investors' protection fund, known as the Financial Services Compensation Scheme (the "FSCS"). The FSCS was established to compensate consumers of financial services, including the buyers of insurance, against failures in the financial services industry. Individual policyholders and small businesses may be compensated by the FSCS when an authorized insurer is unable, or likely to be unable, to satisfy policyholder claims. Assured Guaranty (UK) does not expect to write any insurance business that is protected by the FSCS.

Properties

We and our subsidiaries currently lease office space in Bermuda, New York and London.

Employees

As of April 19, 2004, we had approximately 110 employees. None of our employees is subject to collective bargaining agreements.

Legal Proceedings

In the ordinary course of their respective businesses, certain of our subsidiaries have become subject to certain legal proceedings and claims, none of which have been finally adjudicated. We believe, 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 our financial position, results of operations or liquidity, although an adverse resolution of any one or more of these items during any quarter or fiscal year could have a material adverse effect on our results of operations or liquidity in that particular quarter or fiscal year.

On January 18, 2002, World Omni Financial Corp. ("World Omni") filed an action against ACE Capital Re Inc. (which will be renamed Assured Guaranty Inc. in connection with this offering) in the United States District Court for the Southern District of New York entitled *World Omni Financial Corp. v. ACE Capital Re Inc.*, Case no. 02 CV 0476 (RO). On September 20, 2002, World Omni amended its complaint to add AGRO as a defendant. The dispute arises out of a quota share reinsurance agreement between AGRO and JCJ Insurance Company ("JCJ"), an affiliate of World Omni, and an underlying residual value insurance policy issued by JCJ to World Omni, which insured residual value losses of World Omni with respect to a portfolio of automobile leases. Subject to the terms and conditions of the policy, the residual value insurance policy insures World Omni against losses (as defined in the policy) resulting from the value of leased vehicles at the end of the applicable lease term being less than what such value was assumed to have been at the inception of the applicable lease term. In the District Court action, World Omni has sought a declaratory judgment regarding AGRO's coverage obligations, if any, for such alleged losses, as well as damages for breach of contract based upon AGRO's refusal to pay claims asserted by World Omni. World Omni seeks \$157 million, which is the limit of liability under the quota share reinsurance agreement, plus interest.

AGRO and Assured Guaranty Inc. have denied World Omni's claims, and intend to contest them vigorously. On March 1, 2004, all parties submitted a joint motion to the District Court seeking to stay the litigation in favor of arbitration. No formal discovery has been taken, and it is too early in the litigation to predict its ultimate outcome. In connection with the offering, AGRO will retrocede its reinsurance obligations under its agreement with JCJ to a subsidiary of ACE pursuant to a 100% quota share retrocession agreement. In addition, ACE will assume the defense of the World Omni action and agree to indemnify and hold us harmless from any damages or expenses in connection with this action. See "Relationship with ACE."

On January 27, 2004, Olympic Title Insurance Company ("OTIC") and certain of its principals and affiliates filed an action against ACE, ACE Capital Title Reinsurance Company, Assured Guaranty Inc., Assured Guaranty Re Overseas Ltd., Assured Guaranty Overseas US Holdings Inc., Assured Guaranty Re International Ltd. and ACE Bermuda Insurance Ltd. (collectively, the "defendants") in Ohio State Court. The dispute concerns discussions between ACE Capital Title, on the one hand, and OTIC and OTIC's new principals, on the other hand, regarding a potential transaction whereby ACE Capital Title would reinsure title insurance risks in certain residential markets and issue title insurance policies in certain commercial markets. The specific relief sought in the complaint includes specific performance of an alleged reinsurance agreement, an injunction preventing any of the defendants from taking certain actions in relation to, among other things, ACE's title business and damages.

The court issued a temporary restraining order that restrains the defendants from (i) contacting the Ohio Department of Insurance regarding a change of control application filed by OTIC, and (ii) changing or affecting ACE Capital Title's insurance licenses in four states. By agreement of the parties, the temporary restraining order will stay in effect until the preliminary injunction hearing is concluded and a decision is rendered by the court. The preliminary injunction hearing has been put off until after May 1, 2004.

ACE Capital Title has been sold to Ace Bermuda in connection with the formation transactions. Management intends to continue to contest the case vigorously. As the case has just commenced, no formal discovery has been taken and it is too early in the litigation to predict its ultimate disposition with any reasonable degree of certainty. In connection with this offering, ACE will assume the defense of the OTIC action and agree to indemnify and hold us harmless from any damages or expenses in connection with this action.

MANAGEMENT

Directors, Executive Officers and Key Employees

The following table provides information regarding our directors, executive officers and key employees as of March 31, 2004:

Name	Age	Position(s)
Donald Kramer	66	Chairman of the Board ⁽⁴⁾
Dominic J. Frederico	51	President and Chief Executive Officer; Deputy Chairman
Michael J. Schozer	46	President of Assured Guaranty Corp.
Robbin Conner	43	Executive Vice President of Assured Guaranty Corp.
Robert B. Mills	54	Chief Financial Officer
James M. Michener	51	General Counsel and Secretary
Pierre A. Samson	39	Chief Actuary; President of AGRI
Brian Duperreault	56	Provisional Director
Evan G. Greenberg	48	Provisional Director
Neil Baron	60	Nominee for Director ⁽²⁾⁽³⁾
G. Lawrence Buhl	57	Nominee for Director ⁽¹⁾⁽⁴⁾
Stephen A. Cozen	64	Nominee for Director ⁽²⁾⁽³⁾
John G. Heimann	74	Nominee for Director ⁽³⁾⁽⁴⁾
Patrick W. Kenny	61	Nominee for Director ⁽¹⁾⁽⁴⁾
Walter A. Scott	66	Nominee for Director ⁽¹⁾⁽²⁾

- (1) Will become a member of the Audit Committee upon completion of the offering. Mr. Buhl will serve as Chairman of the Audit Committee.
- (2) Will become a member of Compensation Committee upon completion of the offering. Mr. Scott will serve as Chairman of the Compensation Committee.
- (3) Will become a member of the Nominating/Governance Committee upon completion of the offering. Mr. Baron will serve as Chairman of the Nominating/Governance Committee.
- (4) Will become a member of the Finance Committee upon completion of the offering. Mr. Kramer will serve as Chairman of the Finance Committee.

Donald Kramer has been non-executive Chairman of the Board of Assured Guaranty since December 2003. Mr. Kramer has been a Vice Chairman of ACE since July 1996 following ACE's acquisition of ACE Tempest Reinsurance Company Limited ("ACE Tempest Re"), and was President of ACE Tempest Re from July 1996 until 1999. Mr. Kramer served as Chairman or Co-Chairman of the Board of ACE Tempest Re

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from its formation in September 1993 until July 1996. Prior to the formation of ACE Tempest Re, Mr. Kramer was President of Kramer Capital Corporation (venture capital investments) from March to September 1993 and Chairman of the Board of NAC Re Corporation (reinsurance) from June 1985 to June 1993. Mr. Kramer is a director of National Benefit Life Insurance Company of New York, a wholly owned subsidiary of Citigroup, a member of the Board of Trustees of the Brooklyn College Foundation and Chairman, National Dance Foundation of Bermuda. Mr. Kramer is also a director of ACE. Upon completion of this offering, Mr. Kramer will

resign his position as an executive officer and a director of ACE though he will remain employed by ACE.

Dominic J. Frederico has been President, Chief Executive Officer and Deputy Chairman of Assured Guaranty since December 2003. Mr. Frederico has served as Vice Chairman of ACE since June 2003 and served as President and Chief Operating Officer of ACE and Chairman of ACE INA Holdings, Inc. ("ACE INA") from November 1999 to June 2003. Mr. Frederico has also served as Chairman, President and Chief Executive Officer of ACE INA from May 1999 through November 1999. Mr. Frederico previously served as President of ACE Bermuda Insurance Ltd. ("ACE Bermuda") from July 1997 to May 1999, Executive Vice President, Underwriting from December 1996 to July 1997, and as Executive Vice President, Financial Lines from January 1995 to December 1996. Prior to joining ACE, Mr. Frederico spent 13 years working for various subsidiaries of the American International Group ("AIG"). Mr. Frederico completed his employment at AIG after serving as Senior Vice President and Chief Financial Officer of AIG Risk Management. Before that, Mr. Frederico was Executive Vice President and Chief Financial Officer of UNAT, a wholly owned subsidiary of AIG headquartered in Paris, France. Mr. Frederico is also a director of ACE and will continue to serve as a director of ACE after this offering. Upon completion of this offering, Mr. Frederico will resign his position as a Vice Chairman of ACE.

Michael J. Schozer was appointed President of Assured Guaranty Corp. in December 2003. Mr. Schozer was Managing Director Structured Finance and Credit Derivatives of Ambac Assurance Corporation from 1996 to December 2003 where he was also a member of Ambac's senior credit committee.

Robbin Conner has been a senior executive of Assured Guaranty Corp. since July 2003 and from April 2000 to June 2003 he was the chief operating officer of AGRI. From 1995 to April 2000, Mr. Conner was employed by Moody's, most recently as a managing director managing a team in London responsible for securitizations of all asset classes. Prior to his employment at Moody's, Mr. Conner was an attorney with Skadden, Arps, Slate, Meagher & Flom in New York for approximately six years, ultimately specializing in structured finance transactions.

Robert B. Mills was appointed Chief Financial Officer of Assured Guaranty in January 2004. Mr. Mills was Managing Director and Chief Financial Officer Americas of UBS AG and UBS Investment Bank from April 1994 to January 2004 where he was also a member of the Investment Bank Board of Directors. Previously, Mr. Mills was with KPMG from 1971 to 1994 where his responsibilities included being partner-in-charge of the Investment Banking and Capital Markets practice.

James M. Michener was appointed General Counsel and Secretary of Assured Guaranty in February 2004. Mr. Michener was General Counsel and Secretary of Travelers Property Casualty Corp. from January 2002 to February 2004. From April 2001 to January 2002, Mr. Michener served as general counsel of Citigroup's Emerging Markets business. Prior to joining Citigroup's Emerging Markets business, Mr. Michener was General Counsel of Travelers Insurance from April 2000 to April 2001 and General Counsel of Travelers Property Casualty Corp. from May 1996 to April 2000.

Pierre A. Samson was appointed Chief Actuary of Assured Guaranty and President of AGRI in January 2004. Mr. Samson was President and Chief Executive Officer of ACE Global Financial Solutions from September 2003 to January 2004, President and Chief Executive Officer of ACE Financial Solutions International from June 2000 to September 2003 and Senior Vice President, Financial Lines of ACE Bermuda from January 1998 to June 2000. Prior to joining ACE in 1995, Mr. Samson worked for eight years as an actuary for Tillinghast Towers Perrin in offices in Bermuda and London. He is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries.

Brian Duperreault has been a director of Assured Guaranty since August 2003. Mr. Duperreault has served as Chairman and Chief Executive Officer of ACE since November 1999 and as Chairman,

President and Chief Executive Officer of ACE from October 1994 through November 1999. Prior to joining ACE, Mr. Duperreault had been employed with AIG since 1973 and served in various senior executive positions with AIG and its affiliates from 1978 until September 1994, most recently as Executive Vice President, Foreign General Insurance and, concurrently, as Chairman and Chief Executive Officer of American International Underwriters Inc. ("AIU"), AIG's foreign general insurance organization, from April 1994 to September 1994. Mr. Duperreault was President of AIU from 1991 to April 1994, and Chief Executive Officer of AIG affiliates in Japan and Korea from 1989 until 1991. Mr. Duperreault is a director of ACE. Mr. Duperreault serves as a member of The American Academy of Actuaries, a member of the Board of Trustees of Saint Joseph's University, a member of the College of Insurance's Board of Trustees and a director of the Bank of N.T. Butterfield & Son, Ltd. Mr. Duperreault will resign as a director of Assured Guaranty upon completion of this offering.

Evan G. Greenberg has been a director of Assured Guaranty since August 2003. Mr. Greenberg has served as President and Chief Operating Officer of ACE since June 2003 and as Vice Chairman of ACE and Chief Executive Officer of ACE Tempest Re from November 2001 to June 2003. In April 2002, Mr. Greenberg was appointed to the position of Chief Executive Officer of ACE Overseas General. Prior to joining ACE, Mr. Greenberg was most recently President and Chief Operating Officer of AIG, a position he held from 1997 until 2000. From 1975 until 1997, Mr. Greenberg held a variety of senior management positions at AIG including Chief Executive Officer of AIG's Far East operations based in Japan and President and Chief Executive Officer of AIG's Overseas General insurance operations. Mr. Greenberg is a director of ACE. Mr. Greenberg will resign as a director of Assured Guaranty upon completion of this offering.

The following individuals have agreed to serve as directors on our board upon completion of this offering:

Neil Baron has been Chairman of Criterion Research Group, LLC, an independent securities research firm since March 2002. From July 1998 to March 2002, Mr. Baron was a private investor. Mr. Baron was Vice Chairman and General Counsel of Fitch Inc., a nationally recognized statistical ratings organization, from April 1989 to August 1998.

G. Lawrence Buhl, CPA, was a partner of Ernst & Young LLP and its predecessors. During his 35-year accounting career, Mr. Buhl served as the Regional Director for Insurance Services in Ernst & Young's Philadelphia, New York and Baltimore offices and as audit engagement partner for more than 40 insurance companies, including Capital Re and FGIC.

Stephen A. Cozen is the founder and Chairman of Cozen O'Connor, a Philadelphia-based law firm where he has practiced law for more than 30 years.

John G. Heimann was the founding Chairman of the Financial Stability Institute, which was founded in 1999, and has served as Senior Advisor to this organization since 2002. The Financial Stability Institute is a joint initiative of the Switzerland-based Bank for International Settlements and the Basle Committee on Banking Supervision whose mission is to promote better and more independent supervision of the banking, capital markets and insurance industries by supervisory authorities around the globe. From 1984 to February 2003, Mr. Heimann was employed by Merrill Lynch & Co. in various capacities, most recently serving as Chairman of that firm's global financial institutions practice. From 1977 to 1981, Mr. Heimann served as Comptroller of the Currency. From 1975 to 1977, Mr. Heimann was Superintendent of Banks of the State of New York.

Patrick W. Kenny has served as the president and chief executive officer of the International Insurance Society in New York, an organization dedicated to fostering the exchange of ideas through a program of international seminars and sponsored research, since June 2001. From 1998 to June 2001 Mr. Kenny served as executive vice president of Frontier Insurance Group, Inc. From 1995 to 1998, Kenny served as senior vice president of SS&C Technologies, where he was responsible for mergers and acquisitions, and relationships with banking and regulatory institutions. From 1988 to 1994, Mr. Kenny

served as Group Executive, Finance & Administration and Chief Financial Officer of Aetna Life & Casualty.

Walter A. Scott has served as Chairman and Chief Executive Officer of Green Mountain Beverage, a Vermont-based hard-cider company. Mr. Scott served as a consultant to ACE from October 1994 until September 1996. Prior to that he served as Chairman, President and Chief Executive Officer of ACE from March 1991 until his retirement in September 1994 and as President and Chief Executive Officer from September 1989 to March 1991. Mr. Scott is a director of ACE and a trustee of Lafayette College.

Board Of Directors

Our directors are divided into three classes and serve for staggered three-year terms. Our Class I directors, whose terms expire in 2005, are Messrs. Kramer and Kenny. Our Class II directors, whose terms expire in 2006, are Messrs. Cozen, Heimann and Scott. Our Class III directors, whose terms expire in 2007, are Messrs. Baron, Buhl and Frederico.

Board Committees

We have an audit committee, a compensation committee and a nominating/governance committee, all of which consist exclusively of members who qualify as independent directors under the applicable requirements of the New York Stock Exchange. We also have a finance committee.

Audit Committee

The audit committee was established to assist the board of directors in its oversight of the integrity of our financial statements and financial reporting process, compliance with legal and regulatory requirements, the system of internal controls, the audit process, the performance of our internal auditors and the performance, qualification and independence of our independent auditors. Each proposed member of the audit committee is "independent" within the meaning of the rules of the New York Stock Exchange. At least one proposed member of the audit committee has the attributes of an "audit committee financial expert" as defined by the SEC.

The duties and responsibilities of the audit committee are set forth in the committee's charter, a copy of which has been filed as an exhibit to the registration statement of which this prospectus is a part, and include:

Recommend to the shareholders, through the board, the appointment and termination (subject to Bermuda law) of our independent auditors;

Review and approve the independent auditors' qualifications and independence, the proposed audit scope, approach, staffing and, subject to our shareholders authorizing our board to act through the audit committee, fees;

Pre-approve all audit and permitted non-audit services to be performed by the independent auditors;

Meet regularly with the chief executive officer, the principal accounting officer, the general counsel, the internal auditors and the independent auditors in separate executive sessions and with other employees as desired;

Review our policies and processes related to the evaluation of risk assessment and risk management;

Review our policies and processes related to the evaluation of the adequacy of our internal control structure;

Review our policies and processes related to compliance with legal and regulatory requirements;

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Review our policies and processes related to the evaluation of any proposed public disclosures regarding an assessment or evaluation of our internal controls and procedures for financial reporting every quarter;

Review and discuss with management and the independent auditors our annual audited and quarterly unaudited financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations disclosures;

Prior to issuance, discuss with management our earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies;

Discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of our financial statements, including any significant changes in our selection or application of accounting principles (which shall be communicated to the committee by our chief financial officer as soon as reasonably practicable), the selection and disclosure of critical accounting estimates, and the effect of alternative assumptions, estimates or accounting principles on our financial statements; and

Review and approve procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Compensation Committee

The compensation committee was established to discharge the board's responsibilities relating to compensation of our employees. Each proposed member of the compensation committee is "independent" within the meaning of the rules of the New York Stock Exchange.

The duties and responsibilities of the compensation committee are set forth in the committee's charter, a copy of which has been filed as an exhibit to the registration statement of which this prospectus is a part, and include:

Establish and oversee our executive compensation policies, including issues relating to pay and performance, targeted pay positioning (median, percentile etc.), comparison companies, pay mix, and stock ownership;

Establish a formal evaluation process for and determine the compensation for the chief executive officer and as part of such process, to review and approve corporate goals and objectives relevant to chief executive officer compensation and evaluate the chief executive officer's performance in light of those goals and objectives;

Review recommendations regarding the compensation of other senior officers and determine appropriate compensation levels. Depending on the number of senior officers, the committee may restrict itself to reviewing and approving the compensation of the senior officers who are the chief executive officer's direct reports;

Make recommendations to the board with respect to new incentive and benefit plans, or amendments to any such existing plans, other than plans covering solely outside directors;

Approve and ratify awards under incentive compensation and equity-based plans, including amendments to the awards made under any such plans;

Consult with the chief executive officer on any decisions to retain or terminate any senior executive officer (except termination under exigent circumstances) and approve any retention or severance terms for the chief executive officer or any senior executive officer; and

Oversee development and evaluation of succession planning for our chief executive officer and other key senior officers.

Nominating and Governance Committee

The nominating and governance committee was established by the board to assist the board in (1) identifying individuals qualified to become board members, and recommending to the board director nominees for the next annual general meeting of shareholders or to fill vacancies; and (2) developing and recommending to the board appropriate corporate governance guidelines. Each proposed member of the compensation committee is "independent" within the meaning of the rules of the New York Stock Exchange.

The duties and responsibilities of the nominating and governance committee are set forth in the committee's charter, a copy of which has been filed as an exhibit to the registration statement of which this prospectus is a part, and include:

Develop qualification criteria for board members, and actively seek, interview and screen individuals qualified to become board members for recommendation to the board in accordance with our corporate governance guidelines;

Recommend to the board potential nominees to the board, and the renomination of incumbent directors as appropriate;

Consider potential nominees recommended by shareholders;

Review the compensation of directors and make recommendations to the board on any recommended changes;

Review the directors who are members (including qualifications and requirements), structure (including authority to delegate) and performance of committees of the board (including reporting to the board), and make recommendations to the board, as appropriate;

Review the qualification of directors as "independent" within the meaning of SEC and New York Stock Exchange rules;

Prepare and assist the board's and each committee's self-evaluation to determine whether the board and such committees are functioning effectively;

Serve in an advisory capacity to the board and chairman of the board on matters of organizational and governance structure of the company and the conduct of the board;

Review and reassess the adequacy of our corporate governance guidelines and recommend any proposed changes thereto; and

Receive comments from all directors and report to the board with an assessment of the board's performance.

Finance Committee

The finance committee was established to assist the board in its oversight of the investment of our investible assets, our capital structure, our financing arrangements and any corporate development activities.

The duties and responsibilities of the finance committee are set forth in the committee's charter, a copy of which has been filed as an exhibit to the registration statement of which this prospectus is a part, and include

establish a written investment policy consistent with our strategies, goals and objectives and rating agency criteria;

approve from time to time asset allocation ranges consistent with the portfolio objectives defined in our investment policy;

review the performance of our investment managers and their compliance with our investment guidelines and asset allocation ranges;

review our capital structure and adequacy and, to the extent deemed necessary, recommend to the board alterations to our capital structure;

review, discuss and make recommendations to the board concerning proposed issuances of equity, debt and other securities and proposed credit and similar facilities;

review and make recommendations to the board concerning our dividend policy and dividends to be paid; and

review any proposed acquisitions, dispositions, joint ventures or strategic investments.

Director Compensation

Non-management directors will receive an annual retainer of \$150,000 per year, \$60,000 of which will be paid in cash and \$90,000 of which will be paid in stock units or restricted stock (as described below), though a director may elect to receive all of his compensation in stock units. Non-management directors will also receive a one-time cash award of \$25,000 upon their election, concurrent with the closing of this offering. The chairman of the board will receive an additional \$15,000 annual retainer, the chairman of the audit committee will receive an additional \$20,000 annual retainer, the chairman of the compensation committee will receive an additional \$10,000 annual retainer and the chairman of the nominating and governance committee will receive an additional \$5,000 annual retainer. Members of the audit committee will receive an additional \$10,000 annual retainer and members of the compensation committee will receive an additional \$5,000 annual retainer. We will generally not pay a fee for attendance at board or committee meetings, though the chief executive officer has the discretion to pay attendance fees of \$2,000 for extraordinary or special meetings.

An initial (one-time) grant of restricted shares with a value of \$100,000 (based on the initial public offering price in this offering or the market value of our common shares) will be awarded to each non-management director upon his or her initial election. These restricted shares will vest on the day immediately prior to the third annual shareholders meeting at which directors are elected following the grant of the shares.

Retainer equity awards will be granted upon completion of this offering and annually thereafter (usually on the date of our annual shareholders' meeting) in the form of stock units until the share ownership guidelines set forth in the next paragraph have been met. The first 10,000 stock units awarded to each director will become non-forfeitable on the day immediately prior to the first annual shareholders meeting at which directors are elected following the grant of the units. The issuance of common shares for these units will be mandatorily deferred until six months after termination of the director's service on our board. After the share ownership guidelines discussed below are met, directors may elect to receive their annual retainer equity award in the form of either restricted shares that vest on the day immediately prior to the first annual shareholders meeting at which directors are elected following the grant of the shares, or stock units that become non-forfeitable on the day immediately prior to the first annual shareholders meeting at which directors are elected following the grant of the units, with the issuance of common shares deferred to a later date chosen by the director. Stock units cannot be sold or transferred until the common shares are issued. Dividend equivalents will be credited to stock units and reinvested as additional stock units.

The board has recommended that each director own at least 10,000 common shares within three years after joining the board. Common shares represented by stock units will count toward that guideline, though restricted shares awarded upon a director's initial election will not.

Neither Messrs. Duperreault nor Greenberg have received or will receive compensation for their service on our board.

Executive Compensation

The following table sets forth the compensation earned during the years indicated by our current chief executive officer, by the former chief executive officer of ACE's financial guaranty business that will be transferred to us, by two former executive officers of ACE's financial guaranty business that will be transferred to us and by the other executive officers of ACE's financial guaranty business as of December 31, 2003. All information set forth in this table reflects compensation earned by the named individuals for services with ACE and its subsidiaries.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary	Bonus	Other Annual Compensation ⁽¹⁾	Restricted Stock Awards ⁽²⁾⁽³⁾⁽⁴⁾	Securities Underlying Options/SARs ⁽³⁾	All Other Compensation ⁽⁵⁾
Dominic J. Frederico President and Chief Executive Officer, Assured Guaranty	2003	\$ 975,000	\$ 1,000,000 ⁽⁶⁾	\$ 483,906	\$ 1,516,350	100,000	\$ 273,750
	2002	850,000	600,000	329,246	1,317,000	232,500	245,795
	2001	800,427	800,000	180,398	1,197,900	82,500	307,530
Jerome Jurschak ⁽⁷⁾ Former Chief Executive Officer, ACE Financial Services, Inc.	2003	550,000			620,325	28,000	98,582
	2002	550,000	600,000		658,500	35,000	106,433
	2001	525,000	600,000		399,300	33,000	126,097
Joseph Swain Former President Reinsurance Assured Guaranty US Holdings	2003	470,000	350,000		551,400	40,000	84,528
	2002	410,000	625,000		658,500	30,000	110,560
	2001	380,000	475,000		301,290	22,000	84,999
Laurence Donnelly ⁽⁸⁾ Former President, ACE Capital Re Inc.	2003	204,058			275,700	20,000	28,997
	2002	405,000	475,000		658,500	30,000	85,248
	2001	375,000	475,000		301,290	22,000	95,480
Howard Albert Executive Vice President, ACE Guaranty Corp.	2003	370,000	265,000		275,700	10,000	62,211
	2002	333,000	250,000		329,250	15,000	63,856
	2001	315,000	220,000		199,650	11,000	64,424
Robbin Conner Executive Vice President, ACE Capital Re Inc.	2003	354,000	175,000		206,775	12,000	84,507
	2002	344,000	230,000		439,000	20,000	149,750
	2001	315,000	220,000		181,500	9,000	162,463

(1)

Other annual compensation for the year ended December 31, 2003 includes commuting and living expenses of \$108,000; personal travel on ACE's corporate aircraft of \$9,951 based on the Internal Revenue Service's formula; housing loan forgiveness of \$187,338 and various tax gross-ups. Other annual compensation for the year ended December 31, 2002 includes commuting and living expenses of \$134,000; personal travel on ACE's corporate aircraft of \$61,506 based on the Internal Revenue Service's formula; and housing loan forgiveness of \$120,938. Other annual compensation for the year ended December 31, 2001 includes commuting and living expenses of \$76,781; personal travel on ACE's corporate aircraft of \$11,610 based on the Internal Revenue Service's formula; and housing loan forgiveness of \$59,660.

(2)

As of December 31, 2003, the number and value of restricted ACE ordinary shares held by each of the above named executive officers was: Mr. Frederico 94,000 (\$3,893,480), Mr. Jurschak 39,250 (\$1,625,735), Mr. Swain 35,400 (\$1,466,268), Mr. Albert 18,375

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(\$761,093) and Mr. Conner 17,500 (\$724,850). Such values were determined by multiplying the number of shares by \$41.42 (the closing price of ACE's ordinary shares on the NYSE on December 31, 2003).

(3)

Restricted stock and option awards were made in February of the applicable year and were intended as compensation for the preceding year in order to take into account performance during the preceding year.

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Upon completion of this offering, any unvested restricted ACE shares held by the named individuals will be forfeited. Any unvested options to purchase ACE ordinary shares held by the named individuals on that date will immediately vest, and the named individuals will then have 90 days to exercise any vested options to purchase ACE ordinary shares.

(4)

The value of the restricted ACE shares awarded during the year ended December 31, 2003 was determined by multiplying the number of shares awarded by the closing price of ACE's ordinary shares on the NYSE on the date of the grant. All such shares were awarded on February 27, 2003, on which date the closing price for ACE's ordinary shares on the NYSE was \$27.57. The value of the restricted shares awarded to the individuals during 2002 and 2001 was also determined by multiplying the number of shares awarded by the closing price of ACE's ordinary shares on the date of the grant. The number of restricted ACE shares awarded to each of the named individuals was:

Name	Year Ended December 31,		
	2003	2002	2001
Dominic J. Frederico	55,000	30,000	33,000
Jerome Jurschak	22,500	15,000	11,000
Joseph Swain	20,000	15,000	8,300
Laurence Donnelly	10,000	15,000	8,300
Howard Albert	10,000	7,500	5,500
Robbin Conner	7,500	10,000	5,000

With respect to all restricted ACE ordinary shares awarded to the named individuals in 2003, 2002 and 2001, the restrictions with respect to one-quarter of the ordinary shares lapse on each of the first, second, third and fourth anniversary of the date of the awards. During the restricted period, the named individuals are entitled to vote the ordinary shares and receive dividends.

(5)

Amounts for 2003 include: (a) contributions by ACE to defined contribution plans of \$273,750 for Mr. Frederico, \$72,144 for Mr. Jurschak, \$65,988 for Mr. Swain, \$12,000 for Mr. Donnelly, \$42,530 for Mr. Albert and \$8,782 for Mr. Conner; (b) split-dollar life insurance premiums paid on behalf of the named individuals of \$26,438 for Mr. Jurschak, \$19,681 for Mr. Albert, \$14,736 for Mr. Donnelly and \$18,540 for Mr. Swain; (c) interest forgiveness for Mr. Donnelly of \$2,261 and (d) housing allowance of \$72,000 for Mr. Conner. Contributions by ACE to defined contribution plans include ACE's discretionary matching contributions that are calculated and paid in the year following the year in which they are reported in the table above.

(6)

In the first quarter of 2004, Mr. Frederico received a bonus of \$1,000,000 relating to 2003 and a bonus of \$250,000 relating to the first quarter of 2004.

(7)

ACE Financial Services Inc. is a holding company for certain of ACE's businesses, including some of the businesses to be transferred to Assured Guaranty. Mr. Jurschak retired on January 31, 2004, and he received a lump sum payment of \$2,100,000.

(8)

Mr. Donnelly's employment with ACE ceased on June 30, 2003. Mr. Donnelly received a severance payment of \$820,343 in June 2003 and a second payment of \$257,399 in January 2004 in connection with a release agreement.

2003 Option Grants

The following table sets forth information concerning awarded stock options made to the named individuals during the year 2003.

Number of Options	Percent of Total Options Awarded to Employees	Exercise or Base Price	Potential Realized Value
			at Assumed Annual Rate of Stock Price Appreciation for Option Term

	Awarded ⁽¹⁾		(\$/Sh)	Expiration Date	Potential Realized Value at Assumed Annual Rate of Stock Price Appreciation for Option Term	
					5%	10%
Dominic J. Frederico	100,000	2.49	\$ 27.57	February 27, 2013	\$ 1,733,862	\$ 4,393,948
Jerome Jurschak	28,000		27.57	February 27, 2013	485,481	1,230,305
Joseph Swain	40,000	0.99%	27.57	February 27, 2013	693,545	1,757,579
Laurence Donnelly	20,000	0.50	27.57	February 27, 2013	346,772	878,790
Howard Albert	10,000	0.25	27.57	February 27, 2013	173,386	439,395
Robbin Conner	12,000	0.30	27.57	February 27, 2013	208,063	527,274

- (1) Of Mr. Frederico's options, 82,500 options vest one-third on each of the first, second and third anniversary of the grant and 150,000 options vest on the fifth anniversary of the grant. All other options vest one-third on each of the first, second and third anniversary of the grant.

Option Values as of December 31, 2003

The following table sets forth information concerning option exercises, the number of unexercised stock options outstanding as of December 31, 2003, and the value of any unexercised in-the-money stock options outstanding at such time, held by the named individuals. There were no stock appreciation rights outstanding as of December 31, 2003.

	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End Exercisable/Unexercisable	Value of Unexercised In- the-Money Options at Fiscal Year-End Exercisable/Unexercisable
Dominic J. Frederico	477,500/332,500	\$7,947,500/\$1,525,800
Jerome Jurschak	33,667/62,333	112,640/444,120
Joseph Swain	14,667/69,333	23,895/601,785
Howard Albert	12,333/23,667	37,545/157,275
Robbin Conner	12,667/28,333	30,720/181,560

Upon completion of this offering, any unvested options to purchase ACE ordinary shares held by the named individuals will immediately vest. The named individuals will then have 90 days to exercise any vested options to acquire ACE ordinary shares.

New Employment Agreements

In connection with this offering, we are negotiating employment agreements with our executive officers. Described below are the material terms of the agreements we expect to enter into with our chief executive officer and our other four executive officers we expect to be the most highly compensated in 2004. We expect to have each of these agreements finalized prior to the completion of this offering and copies of the final agreements will be filed as exhibits to the registration statement of which this prospectus is a part.

Dominic J. Frederico. We are finalizing an agreement with Dominic J. Frederico pursuant to which he will serve as our President and Chief Executive Officer and will be paid a minimum base salary of \$700,000 per year. Mr. Frederico will be eligible to receive annual bonuses with a target bonus of 0-200% of his minimum base salary, with the actual amount to be determined by our compensation committee based upon our profitability and Mr. Frederico's individual performance. In connection with this offering, Mr. Frederico will be granted an award of (i) 250,000 restricted common shares and (ii) options to purchase 500,000 common shares. Restricted common shares will vest evenly over a four year period with the first one-fourth vesting one year after the date of the award. Options will vest evenly over a three year period with the first one-third vesting one year after the date of the award. These restricted common shares and options will be subject to the terms and conditions of our Long-Term Incentive Plan. Mr. Frederico is eligible to participate in our long-term incentive program, including our Long-Term Incentive Plan. Awards will be made by our compensation committee and will be based upon our profitability and Mr. Frederico's individual performance. It is currently expected that Mr. Frederico will receive 83,333 restricted common shares and options to purchase 166,667 common shares per year under this program. Mr. Frederico is also eligible to participate in our general benefit plans, in accordance with the terms of the applicable plans. Mr. Frederico is entitled to a housing allowance for residency in Bermuda of up to \$18,000 per month. If there is a change of control (as defined below), Mr. Frederico's unvested equity awards will immediately vest and his options will continue to be exercisable in accordance with their terms. In addition, if Mr. Frederico's employment is terminated for any reason during the 12 months after the change of control, Mr. Frederico will be entitled to receive severance equal to two years of his ending base salary and continuation of his other benefits for a 24-month period. The initial term of Mr. Frederico's agreement is three years and the agreement will automatically renew for one year periods thereafter unless non-renewed by either party at least 30 days prior to the expiration date. Mr. Frederico's employment agreement contains an

agreement not to compete during the term of the agreement and for a period of 12 months following termination of Mr. Frederico's employment for any reason other than a termination without cause. Mr. Frederico's employment agreement also contains confidentiality and non-solicit provisions.

Michael J. Schozer. We are finalizing an agreement with Michael J. Schozer pursuant to which he will serve as the President of Assured Guaranty Corp. and will be paid a minimum base salary of \$350,000 per year. Mr. Schozer was paid a signing bonus of \$500,000, subject to forfeiture in part in the event of his resignation or termination for cause during the first 12 months of his employment. Mr. Schozer will be eligible to receive annual bonuses with a target bonus of 200% of his minimum base salary, with the actual amount to be determined by our compensation committee based upon our profitability and Mr. Schozer's individual performance, subject to a minimum annual bonus equal to 100% of his minimum base salary. In connection with this offering, Mr. Schozer will be granted an award of (i) 120,000 restricted common shares and (ii) options to purchase 240,000 common shares. Restricted common shares will vest evenly over a four year period with the first one-fourth vesting one year after the date of the award. Options will vest evenly over a three year period with the first one-third vesting one year after the date of the award. These restricted common shares and options will be subject to the terms and conditions of our Long-Term Incentive Plan. Mr. Schozer is eligible to participate in our long-term incentive program, including our Long-Term Incentive Plan. Awards will be made by our compensation committee and will be based upon our profitability and Mr. Schozer's individual performance. During each year in the initial three-year term, if we report positive net income Mr. Schozer is guaranteed that the value of any long-term incentive award made for that year will be no less than the amount of his annual base salary; his initial target will be 40,000 restricted common shares and 80,000 options to purchase common shares. Mr. Schozer is also eligible to participate in our general benefit plans, in accordance with the terms of the applicable plans. If there is a change of control, Mr. Schozer's unvested equity awards will immediately vest and his options will continue to be exercisable in accordance with their terms. In addition, if Mr. Schozer's employment is terminated for any reason during the 12 months after the change of control, Mr. Schozer will be entitled to receive severance equal to two years of his ending base salary and continuation of his other benefits for a 24-month period. The initial term of Mr. Schozer's agreement is three years and the agreement will automatically renew for one year periods thereafter unless non-renewed by either party at least 30 days prior to the expiration date. Mr. Schozer's employment agreement contains an agreement not to compete during the term of the agreement and for a period of 12 months following termination of Mr. Schozer's employment for any reason other than a termination without cause. Mr. Schozer's employment agreement also contains confidentiality and non-solicit provisions.

Robert Mills. We are finalizing an agreement with Robert Mills pursuant to which he will serve as our Chief Financial Officer and will be paid a minimum base salary of \$500,000 per year. Mr. Mills was paid a signing bonus of \$750,000, subject to forfeiture in part in the event of his resignation or termination for cause during the first 12 months of his employment. Mr. Mills will be eligible to receive annual bonuses with a target bonus of 140% of his minimum base salary, with the actual amount to be determined by our compensation committee and will be based upon our profitability and Mr. Mills' individual performance, subject to a minimum annual bonus equal to 100% of his guaranteed minimum base salary. In connection with this offering, Mr. Mills will be granted an award of (i) 120,000 restricted common shares and (ii) options to purchase 240,000 common shares. Restricted common shares will vest evenly over a four year period with the first one-fourth vesting one year after the date of the award. Options will vest evenly over a three year period with the first one-third vesting one year after the date of the award. These restricted common shares and options will be subject to the terms and conditions of our Long-Term Incentive Plan. Mr. Mills is eligible to participate in our long-term incentive program, including our Long-Term Incentive Plan. Awards will be made by our compensation committee and will be based upon our profitability and Mr. Mills' individual performance. During each year in the initial three-year term, if we report positive net income Mr. Mills is guaranteed that the value of any long-term incentive award made for that year will be no less than the amount of his annual base salary; his initial target award will be 40,000 restricted common shares and 80,000 options

to purchase common shares. Mr. Mills is also eligible to participate in our general benefit plans, in accordance with the terms of the applicable plans. If there is a change of control, Mr. Mills' unvested equity awards will immediately vest and his options will continue to be exercisable in accordance with their terms. In addition, if Mr. Mills' employment is terminated for any reason during the 12 months after the change of control, Mr. Mills will be entitled to receive severance equal to two years of his ending base salary and continuation of his other benefits for a 24-month period. The initial term of Mr. Mills' agreement is three years and the agreement will automatically renew for one year periods thereafter unless non-renewed by either party at least 30 days prior to the expiration date. Mr. Mills' employment agreement contains an agreement not to compete during the term of the agreement and for a period of 12 months following termination of Mr. Mills' employment for any reason other than a termination without cause. Mr. Mills' employment agreement also contains confidentiality and non-solicit provisions.

James M. Michener. We are finalizing an agreement with James M. Michener pursuant to which he will serve as our general counsel and will be paid a minimum base salary of \$350,000 per year. Mr. Michener will be eligible to receive annual bonuses with a target bonus of 150% of his minimum base salary, with the actual amount to be determined by our compensation committee based upon our profitability and Mr. Michener's individual performance, subject to a minimum annual bonus equal to 100% of his minimum base salary. In connection with this offering, Mr. Michener will be granted an award of (i) 80,000 restricted common shares and (ii) options to purchase 160,000 common shares. Restricted common shares will vest evenly over a four year period with the first one-fourth vesting one year after the date of the award. Options will vest evenly over a three year period with the first one-third vesting one year after the date of the award. These restricted common shares and options will be subject to the terms and conditions of our Long-Term Incentive Plan. Mr. Michener is eligible to participate in our long-term incentive program, including our Long-Term Incentive Plan. Awards will be made by our compensation committee and will be based upon our profitability and Mr. Michener's individual performance. During each year in the initial three-year term, if we report positive net income Mr. Michener is guaranteed that the value of any long-term incentive award made for that year will be no less than the amount of his annual base salary; his initial target award will be 20,000 restricted common shares and 40,000 options to purchase common shares. Mr. Michener is also eligible to participate in our general benefit plans, in accordance with the terms of the applicable plans. Mr. Michener is entitled to a housing allowance for residency in Bermuda of up to \$10,000 per month. If there is a change of control, Mr. Michener's unvested equity awards will immediately vest and his options will continue to be exercisable in accordance with their terms. In addition, if Mr. Michener's employment is terminated for any reason during the 12 months after the change of control, Mr. Michener will be entitled to receive severance equal to two years of his ending base salary and continuation of his other benefits for a 24-month period. The initial term of Mr. Michener's agreement is three years and the agreement will automatically renew for one year periods thereafter unless non-renewed by either party at least 30 days prior to the expiration date. Mr. Michener's employment agreement contains an agreement not to compete during the term of the agreement and for a period of 12 months following termination of Mr. Michener's employment for any reason other than a termination without cause. Mr. Michener's employment agreement also contains confidentiality and non-solicit provisions.

Pierre A. Samson. We are finalizing an agreement with Pierre A. Samson pursuant to which he will serve as our chief actuary and the president of AGRI and will be paid a minimum base salary of \$350,000 per year. Mr. Samson will be eligible to receive annual bonuses with a target bonus of 0-200% of his minimum base salary, with the actual amount to be determined by our compensation committee based upon our profitability and Mr. Samson's individual performance. In connection with this offering, Mr. Samson will be granted an award of (i) 50,000 restricted common shares and (ii) options to purchase 100,000 common shares. Restricted common shares will vest evenly over a four year period with the first one-fourth vesting starting one year after the date of the award. Options will vest evenly over a three year period with the first one-third vesting one year after the date of the award. These

restricted common shares and options will be subject to the terms and conditions of our Long-Term Incentive Plan. Mr. Samson is eligible to participate in our long-term incentive program, including our Long-Term Incentive Plan. Awards will be made by our compensation committee and will be based upon our profitability and Mr. Samson's individual performance. Mr. Samson is also eligible to participate in our general benefit plans, in accordance with the terms of the applicable plans. Mr. Samson is entitled to his current housing allowance for residency in Bermuda until December 31, 2004. The initial term of Mr. Samson's agreement is three years and the agreement will automatically renew for one year periods thereafter unless non-renewed by either party at least 30 days prior to the expiration date. Mr. Samson's employment agreement contains an agreement not to compete during the term of the agreement and for a period of 12 months following termination of Mr. Samson's employment for any reason other than a termination without cause. Mr. Samson's employment agreement also contains confidentiality and non-solicit provisions.

A "change in control" as used in the employment agreements described above means the occurrence of the events described in any of the following paragraphs:

the acquisition (other than specifically identified categories of acquisitions) by any person or group of ownership of any voting securities of Assured Guaranty if, immediately after the acquisition, the person has ownership of more than twenty-five percent (25%) of either our outstanding common shares, or the combined voting power of our outstanding voting securities; provided that an acquisition of voting securities by ACE or one of its affiliates will not constitute a change of control;

individuals who constitute our incumbent board cease for any reason to represent greater than 50% of the voting power of members of our board; provided that for purposes of this paragraph, our "incumbent board" means the members of our Board as of the date of the completion of this offering and any individual becoming a director after that date whose election, or nomination for election, was approved by a vote of at least a majority of the directors then comprising the incumbent board; provided, however, that a person will not be considered a member of our incumbent board if he was elected as a result of an actual or publicly threatened election contest or other actual or publicly threatened solicitation of proxies or consents by or on behalf of a person other than our board;

consummation of (A) a reorganization, amalgamation, merger, consolidation, or other business combination involving us or (B) the sale or other disposition of more than fifty percent (50%) of our operating assets (determined on a consolidated basis), other than any such transaction in which:

our shareholders before the transaction continue to own a majority of the shares of the ultimate parent resulting from the transaction,

no person will own more than 25% of the resulting parent company; and

individuals who were members of our incumbent board prior to the transaction will constitute at least a majority of the members of the board of the ultimate parent resulting from the transaction;

approval by our shareholders of a plan of complete liquidation or dissolution.

Transition from ACE to Assured Guaranty Plans

Prior to this offering, our officers and employees have been covered under ACE's long-term incentive plans providing options to purchase shares and restricted share unit awards. Our officers and employees have been covered under additional benefit plans, including retirement programs providing 401(k), health and life insurance benefits; medical, dental and vision benefits for active employees; disability and life insurance protection; and severance. These additional benefits have been provided to

our employees and officers who work in the United States by plans maintained by Assured Guaranty Corp. and to our employees and officers who work in Bermuda and the United Kingdom by ACE plans covering ACE employees in those locations. After the completion of this offering, our officers and employees will be covered by benefit plans we have or are establishing; except that during a transition period following the offering, employees located in the United Kingdom and Bermuda may continue to participate in some of the ACE benefit plans in which they participated prior to the offering.

Upon completion of this offering, any unvested options to purchase ACE ordinary shares held by our officers or employees will immediately vest and any unvested restricted ACE ordinary shares will be forfeited. Our officers and employees will have 90 days to exercise any vested options to acquire ACE ordinary shares. The acceleration of vesting of options to purchase ordinary shares will result in a pre-tax charge to us of approximately \$3.1 million. We have agreed to deposit in trust with an independent trustee an amount of cash equal to the value of the restricted ACE ordinary shares forfeited by all of our officers and employees. Based upon an assumed price of \$42.00 per ACE ordinary share, the value of the restricted ACE ordinary shares to be forfeited by all of our officers and employees is approximately \$8.3 million. We will incur a pre-tax charge of approximately \$8.3 million for the amount of cash contributed to the trust. The trust would purchase common shares in this offering and allocate to each such individual common shares having the approximate value of the ACE ordinary shares forfeited by such individual. Assuming an initial public offering price of \$19.00 per common shares (the midpoint of the range set forth on the cover of this prospectus), the trust would purchase approximately 437,316 common shares in this offering. The common shares would be deliverable to each individual on the 18-month anniversary of the completion of this offering so long as during that 18-month period the individual was not employed, directly or indirectly, by any designated financial guaranty company. Any forfeited common shares would be delivered to us. The independent trustee will not have any beneficial interest in the trust. Following the completion of this offering, our officers and employees will no longer be eligible to participate in the ACE long-term incentive plans.

We have adopted the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (the "Incentive Plan"). The number of common shares that may be delivered under the Incentive Plan may not exceed 7,500,000 common shares. In the event of certain transactions affecting our common shares, the number or type of shares subject to the Incentive Plan, the number and type of shares subject to outstanding awards under the Incentive Plan, and the exercise price of awards under the Incentive Plan, may be adjusted.

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 our common shares. The grant of full value awards may be in return for a participant's previously performed services, or in return for the participant surrendering other compensation that may be due, or may be contingent on the achievement of performance or other objectives during a specified period, or may be subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the participant, or achievement of performance or other objectives. Awards under the Incentive Plan may accelerate and become vested upon a change in control of Assured Guaranty.

The Incentive Plan is administered by a committee of the board of directors. The compensation committee of the board shall serve as this committee except as otherwise determined by the board. The board may amend or terminate the Incentive Plan.

In connection with this offering, awards of options and restricted common shares will be made to certain of our officers and employees. Each of the options will vest in equal annual installments over a three-year period and will expire on the tenth anniversary of the date of grant. The exercise price of the options will be equal to the public offering price in this offering. Restricted common shares will vest in equal annual installments over a four-year period. Options to purchase an aggregate of 1,874,833 common shares and an aggregate of 937,417 restricted common shares will be issued in

connection with this offering. The following table sets forth the number of common shares subject to options and the number of restricted common shares to be awarded to our chief executive officer and our other four executive officers who we expect will be the most highly compensated in 2004:

	Common Shares Subject to Option	Restricted Common Shares
Dominic J. Frederico	500,000	250,000
Michael J. Schozer	240,000	120,000
Robert B. Mills	240,000	120,000
James M. Michener	160,000	80,000
Pierre A. Samson	100,000	50,000

PRINCIPAL AND SELLING SHAREHOLDERS

Prior to the completion of this offering, all of our outstanding common shares are beneficially owned by ACE. ACE's principal executive officers are located at ACE World Headquarters, 17 Woodbourne Street, Hamilton HM 08 Bermuda. Voting control over these shares is shared by ACE's executive management team, headed by ACE's Chairman and Chief Executive Officer, Brian Duperreault. Investment and dispositive control over these shares rests with ACE's board of directors.

ACE Financial Services Inc., which will be the record owner of common shares upon completion of the formation transactions, has agreed to sell all of its common shares in this offering. ACE Bermuda Insurance Ltd., which will be the record owner of common shares upon completion of the formation transactions, has agreed to sell common shares in this offering (plus up to an additional common shares subject to the underwriters' over-allotment option).

Upon completion of this offering, ACE will beneficially own 26,000,000 common shares, or approximately 35% of our common shares outstanding. If the underwriters exercise their option to purchase additional common shares in full, ACE will beneficially own 18,650,000 common shares, or approximately 25% of our total common shares outstanding.

Except for ACE, we believe no persons will beneficially own more than 5% of our outstanding common shares upon completion of this offering. Neither our directors nor our officers own any of our common shares prior to this offering.

RELATIONSHIP WITH ACE

In addition to the agreements and arrangements described under "Formation Transactions," we have entered or will enter into the following agreements and arrangements with ACE:

Service Agreements

We are parties to a number of services agreements with subsidiaries of ACE under which either we have provided services to the subsidiaries of ACE, or they have provided services to us, including those summarized below.

We have provided a variety of administrative services to ACE American Insurance Company, ACE Asset Management Inc. and ACE Financial Services, including human resources, legal, data processing, accounting, tax and financial planning services. The aggregate payments to us under these services agreements for the years ended December 31, 2003, 2002 and 2001 were approximately \$3.4 million, \$1.8 million and \$0.3 million, respectively. Certain of these agreements terminated in December 2003, and the others will be terminated in connection with this offering.

In addition, we entered into an employee leasing agreement with ACE American, effective in 2001, under which we provided staffing services and were reimbursed for compensation costs. For the years ended December 31, 2003, 2002 and 2001, we received approximately \$9.6 million, \$6.8 million and \$5.5 million, respectively, under this employee leasing agreement. This agreement terminated in December 2003.

We are party to several investment advisory services agreements, each effective in 2001, with ACE Asset Management under which it provides investment services to us such as determining asset allocation and reviewing performance of external investment managers. For the years ended December 31, 2003, 2002 and 2001, we incurred expenses of approximately \$0.3 million, \$0.3 million and \$0.4 million, respectively, under these agreements. These agreements will be terminated in connection with this offering.

ACE Financial Solutions International, Ltd. has provided to AGRI a variety of administrative services, including human resources, payroll, accounts payable, purchasing and information technology for AGRI's Bermuda office. For the years ended December 31, 2003, 2002 and 2001, AGRI incurred approximately \$0.5 million, \$0.3 million and \$0.2 million, respectively, for these services. Upon completion of this offering, this agreement will be terminated and, subject to obtaining the requisite licenses under Bermuda law, replaced by the transition services agreements described below.

Also, ACE INA Services (UK) Ltd. has provided to Assured Guaranty Finance Overseas and Assured Guaranty (UK) staffing, human resources, payroll and accounts payable services. For the years ended December 31, 2003, 2002 and 2001, we incurred approximately \$1.1 million, \$1.0 million and \$0, respectively, for these services. Upon completion of this offering, these arrangements will be terminated and replaced by the transition services agreements described below.

We had an arrangement with ACE Financial Solutions International, Ltd.'s Japan branch pursuant to which it sourced business for us and we paid a portion of the overhead of its Japan office. For each of the years ended December 31, 2003, 2002 and 2001, we paid \$0.1 million. This arrangement terminated in December 2003.

ACE INA has provided certain general and administrative services to us, including tax consulting and preparation services, internal audit services and a liquidity facility line of credit. Amounts paid for these services were \$0.6 million for the year ended December 31, 2003 and allocated expenses included in our financial statements related to these services were \$0.5 million for each of the years ended December 31, 2002 and 2001. Upon completion of this offering, these arrangements will be terminated and replaced by the transition services agreements described below.

As described above, we will enter into transition services agreements with ACE under which some of the services that we have provided to subsidiaries of ACE or that subsidiaries of ACE have provided to us will continue for a period of time following completion of this offering. We expect the fees to be

paid in connection with such services to be comparable to the fees paid under the existing arrangements. The transition services agreements will provide that, unless otherwise specified in the agreement, either party may cease providing one or more of the services upon 30 days' notice to the other party.

Real Estate

AGRI has been party to an arrangement with ACE pursuant to which it subleased approximately 5,000 square feet of office space in Bermuda from ACE at an annual cost of \$0.4 million. This amount is a prorated portion of amounts payable by ACE under the master lease. This arrangement, and the master lease to which ACE is a party, expires on April 30, 2005. The land owner is a company of which ACE owns 40% of the outstanding capital stock. In connection with this offering, we will terminate the sublease arrangement and lease directly from the landowner the current space plus additional space.

In 2003, Assured Guaranty (UK) and Assured Guaranty Finance Overseas entered into a cost-sharing arrangement with an affiliate of ACE pursuant to which they lease 7,193 square feet of office space in London through 2009. The rent is £239,526 per year and is equal to the rate on the underlying lease to which the affiliate of ACE is a party. We expect to terminate this cost-sharing arrangement in connection with this offering and move our London operations to office space we currently lease from an unrelated party.

We have agreed to assign to ACE American Insurance Company our sublease of the 19th floor of 1325 Avenue of the Americas and sell to ACE American certain furniture and our improvements of that space. ACE American has agreed to pay us \$2,000,000 for the furniture and improvements, which is their approximate book value.

We have agreed to purchase for \$2,000,000 from ACE Financial Services a condominium in New York City for use by our executive officers who are not residents of New York City. The purchase price was based upon an independent appraisal of the condominium.

Reinsurance Transactions

We cede business to affiliates of ACE under certain reinsurance agreements. Amounts related to reinsurance ceded are reflected in the table below:

	2003	2002	2001
	(\$ in millions)		
<i>For the year ended December 31:</i>			
Written premiums	\$ (144.0)	\$ 61.4	\$ 228.0
Earned premiums	18.4	46.5	80.8
Loss and loss adjustment expenses incurred	20.4	31.3	68.7
Profit commission expenses	0.3	1.3	0.4
<i>As of December 31:</i>			
Prepaid reinsurance premiums		\$ 162.4	\$ 147.5
Reinsurance recoverable on ceded losses	\$ 100.2	92.2	64.0

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We also write business with affiliates of ACE under insurance and reinsurance agreements. Amounts related to business assumed from affiliates are reflected in the table below:

	2003	2002	2001
	(\$ in millions)	(\$ in millions)	(\$ in millions)
<i>For the year ended December 31:</i>			
Written premiums	\$ 12.2	\$ 7.7	\$ 170.2
Earned premiums	14.4	16.8	174.5
Loss and loss adjustment expenses incurred	6.8	25.7	182.2
Acquisition costs	2.0	0.5	3.0

As of December 31:

Unearned premium reserve	\$ 4.5	\$ 6.7	\$ 15.8
Reserve for losses and loss adjustment expenses	185.4	189.8	171.9

In September 2001, Assured Guaranty Corp. entered into an excess of loss agreement with ACE Bermuda. Under the terms of the agreement, Assured Guaranty Corp. paid \$52.5 million in premium in two installments of \$27.5 million in September 2001 and \$25.0 million in March 2002 for a 10-year cover with a \$150 million limit. In June 2003, this agreement was cancelled by Assured Guaranty Corp. and the unearned premium of \$39.8 million, loss reserves of \$12.5 million and profit commission of \$1.5 million were returned to Assured Guaranty Corp. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Combined Results of Operations Summary of Significant Affiliate Transactions Assured Guaranty Corp. Affiliate Reinsurance Transaction."

In December 2001, AGRI entered into an excess of loss reinsurance agreement with ACE Bermuda. Under the terms of the agreement, AGRI paid ACE Bermuda \$125 million of premium for a portfolio cover with a \$5 million per risk deductible, a \$50 million per risk limit and a \$400 million aggregate limit. This agreement was terminated effective December 31, 2003 and we recorded a receivable of \$131.9 million consisting of unearned premium of \$115.0 million and loss reserves of \$16.9 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Combined Results of Operations Summary of Significant Affiliate Transactions AGRI Affiliate Reinsurance Transaction."

In July 2001, we entered into a reinsurance arrangement with Commerical Guaranty Assurance Ltd. and retroceded 100% of this exposure to ACE American. Under the terms of these reinsurance agreements, we assumed and ceded premium of \$6.0 million, \$11.7 million and \$73.8 million in 2003, 2002 and 2001, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Combined Results of Operations Summary of Significant Affiliate Transactions AGRO Affiliate Reinsurance Transaction."

In March 2001, AGRO entered into a reinsurance agreement with Westchester Fire Insurance Company, a subsidiary of ACE, whereby AGRO reinsured a quota share portion of an auto residual value insurance policy issued by Westchester Fire. Loss and loss adjustment expenses incurred and premiums earned recorded at inception were \$84.8 million. The value of reinsurance business assumed recorded at the inception of the contract amounted to \$31.5 million, and represented the difference between the estimated ultimate amount of the losses assumed under the retroactive reinsurance contract of \$116.3 million and the cash received in the amount of \$84.8 million. As of December 31, 2003, 2002 and 2001, the value of reinsurance business assumed was \$14.2 million, \$20.3 million and \$26.4 million, respectively, and the reserve for losses and loss adjustment expenses was \$116.3 million. In 2003, 2002 and 2001, we recorded amortization of the value of reinsurance business assumed balance in the amount of \$6.1 million, \$6.1 million and \$5.1 million, respectively. This reinsurance agreement will be commuted effective April 1, 2004 in connection with this offering.

In 2002, we transferred our LA&H business to several affiliates of ACE. The transfer of this business resulted in recording in 2002 negative net written and negative earned premiums of

\$40.2 million and \$32.2 million, respectively, with a related reduction in loss and loss adjustment expenses incurred and acquisition costs of \$28.8 and \$3.4 million, respectively.

In 2000, AGRI entered into an excess of loss treaty reinsurance agreement with ACE Bermuda under which AGRI retrocedes to ACE Bermuda \$100 million of limit in excess of a \$95 million retention on title insurance business ceded to AGRI by ACE Capital Title. AGRI paid premiums to the ACE Bermuda of \$0.3 million, \$0.2 million and \$0.2 million in each of the years ended December 31, 2003, 2002 and 2001, respectively. AGRI and ACE Bermuda will amend this agreement in connection with this offering to convert the coverage under the agreement to 100% quota share reinsurance. The parties will seek regulatory approval for an assignment of the AGRI-ACE Capital Title treaty to ACE Bermuda. Once approval is obtained, AGRI, ACE Bermuda and ACE Capital Title will enter into the assignment agreement and AGRI and ACE Bermuda will terminate the 100% quota share reinsurance agreement.

In 2002, AGRI entered into a reinsurance agreement with ACE European Markets Insurance Ltd. relating to U.K. title insurance written by ACE European Markets Insurance. This agreement was assigned to AGRO in 2002 and terminated on a run-off basis in 2003. AGRO and ACE European Markets entered into a reinsurance agreement in 2003 relating to new U.K. title insurance. The aggregate premiums paid under these contracts for the year ended December 31, 2003 were approximately \$4.7 million. No premiums were paid in 2002. These reinsurance agreements will be assigned to ACE Bermuda in connection with this offering.

In 1998, AGRI and ACE Bermuda entered into an insurance policy, pursuant to which AGRI insured ACE Bermuda for 100% of its liability under two total rate of return swaps. In 1999, AGRI and ACE Bermuda entered into a retrocession agreement pursuant to which ACE Bermuda retroceded to AGRI 100% of its liability under a reinsurance agreement. Pursuant to these agreements, ACE Bermuda paid AGRI \$0.2 million, \$1.3 million and \$0.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. ACE Bermuda's liability under the underlying agreements expired or was commuted prior to this offering.

In connection with this offering, we have entered or will enter into several additional reinsurance agreements with subsidiaries of ACE as follows:

ACE American will enter into 100% quota share retrocession agreements with each of Assured Guaranty Corp. and AGRO, each effective April 1, 2004, pursuant to which ACE American will reinsure both existing and new trade credit reinsurance business written by these entities. These agreements are subject to regulatory approval. The aggregate premium payable under these agreements will be approximately \$72.4 million in respect of existing business. For new business, the premium will be 100% of the reinsurance premiums received by Assured Guaranty Corp. or AGRO, as the case may be. Assured Guaranty Corp. and AGRO intend to cease writing new trade credit business in 2004.

AGRO and ACE INA Overseas Insurance Company will enter into a 100% quota share retrocession agreement, effective April 1, 2004, under which AGRO will retrocede to ACE INA Overseas an auto residual value reinsurance transaction. The premium payable under this agreement will be approximately \$32.2 million.

Credit Arrangements

In 2001, AGRI and ACE Bermuda entered into a funding facility agreement pursuant to which ACE Bermuda agreed to purchase up to \$150 million of non-investment grade fixed income securities selected by AGRI, and AGRI agreed to enter into a total rate of return swap in respect of each security purchased. The aggregate amount received by AGRI under this funding facility agreement, net of the funding fee paid by AGRI, for the years ended December 31, 2003, 2002 and 2001 were approximately \$4.8 million, \$2.8 million and \$0, respectively. All the securities purchased pursuant to

this facility agreement will be sold, and this funding facility agreement will be terminated, in connection with this offering.

ACE currently maintains certain letters of credit on behalf of our subsidiaries in an aggregate amount of \$26 million. For the years ended December 31, 2003, 2002 and 2001, we paid ACE \$0.1 million, \$0.1 million and \$0.2 million, respectively, in letter of credit fees, which amounts ACE paid to the issuing bank. In connection with the offering, we will agree to reimburse ACE for any amounts drawn on these letters of credit.

Keepwell Agreement

AGRO provides a keepwell to its subsidiary, ACE Capital Title. Pursuant to the terms of this agreement, AGRO agrees to provide funds to ACE Capital Title sufficient for it to meet its obligations. In connection with this offering, AGRO has assigned this keepwell to ACE Bermuda, and ACE Bermuda has agreed to indemnify and hold harmless AGRO in respect of the keepwell. No payment was made in connection with the assignment of the keepwell agreement.

Other

Upon completion of this offering, any unvested restricted ACE ordinary shares held by our officers or employees will be forfeited. ACE has agreed to pay to us approximately \$5.3 million in connection with this forfeiture.

Capital Contributions

During 2003, 2002 and 2001, ACE contributed capital of \$3.7 million, \$84.2 million and \$8.2 million, respectively to us. The capital contribution for 2003 was utilized to pay interest on long-term debt. The capital contribution in 2002 was primarily made for the purpose of the repayment of our long term debt and interest expense of \$75.0 million and \$6.9 million, respectively. This was a non-cash contribution. See note 17 of the notes to combined financial statements for more details. In 2001, \$7.5 million of the capital contribution was utilized to pay interest on long-term debt. These were also non-cash contributions. In addition, \$0.3 million of expenses relating to our operations were paid by ACE, increasing capital contributions in 2003, 2002 and 2001. These were also non-cash contributions. All expenses are net of related income taxes.

Tax Allocation Agreement

In connection with the share exchange and this offering, we and ACE Financial Services will enter into a tax allocation agreement. Pursuant to the tax allocation agreement, we and ACE Financial Services will make an election under sections 338(g) and 338(h)(10) of the Internal Revenue Code of 1986, as amended (the "Code"), with the effect that the portion of the tax basis of our assets covered by this election will be increased to the deemed purchase price of the assets and an amount equal to such increase will be included in income in the consolidated federal income tax return filed by U.S. tax-paying subsidiaries of ACE. It is expected that this additional basis will result in increased income tax deductions and, accordingly, reduced income taxes payable by us. Pursuant to the tax allocation agreement, we will pay ACE Financial Services any tax benefits realized by us, on a quarterly basis, generally calculated by comparing our actual taxes to the taxes that would have been owed by us had the increase in basis not occurred. In the event that any taxing authority successfully challenges any deductions reflected in a tax benefit payment to ACE Financial Services, ACE Financial Services will reimburse us for the loss of the tax benefit and any related interest or penalties imposed upon us. The tax benefit payments to ACE Financial Services should have no material effect on our earnings or cash flows, which should not be materially less than they would have been in the absence of the tax allocation agreement and additional tax basis.

The tax allocation agreement provides that the tax benefit calculation for any period ending after the consummation of the offering will not be less than the tax benefit calculated without giving effect to any items of income, expense, loss, deduction, credit or related carryovers or carrybacks from businesses

conducted by us or relating to our assets and liabilities other than those businesses conducted by us and those assets and liabilities existing immediately prior to the consummation of the offering (taking into account any assets acquired from ACE Financial Services or its subsidiaries after the offering and any liabilities incurred or assumed with respect to such assets). The tax allocation agreement further provides that we will not enter into any transaction a significant effect of which is to reduce the amount payable to ACE Financial Services under the tax allocation agreement.

Registration Rights Agreement

In connection with the formation transactions described under "Formation Transactions," we will enter into a registration rights agreement with ACE to provide it and its affiliates with registration rights relating to our common shares which they hold.

The registration rights agreement provides ACE and its affiliates with registration rights relating to our common shares held by ACE and its affiliates immediately after this offering and any common shares ACE or its affiliates acquires thereafter. ACE and its affiliates are able to require us to register under the Securities Act all or any portion of our common shares covered by the registration rights agreement. In addition, the registration rights agreement provides for various piggyback registration rights for ACE and its affiliates. Whenever we propose to register any of our securities under the Securities Act for ourselves or others, subject to customary exceptions, we must provide prompt notice to ACE and its affiliates and include in that registration all common shares which ACE or its affiliates owns and requests to be included.

The registration rights agreement sets forth customary registration procedures, including an agreement by us to make available our senior management for roadshow presentations. All registration expenses incurred in connection with any registration, other than underwriting commissions, will be paid by us. In addition, we are required to reimburse ACE for the fees and disbursements of its outside counsel retained in connection with any such registration. The registration rights agreement also imposes customary indemnification and contribution obligations on us for the benefit of ACE and any underwriters, although ACE must indemnify us for any liabilities resulting from information provided by ACE. These payment and indemnification obligations may be subject to restrictions under Bermuda law.

ACE's rights under the registration rights agreement remain in effect with respect to the common shares covered by the agreement until:

those shares have been sold under an effective registration statement under the Securities Act;

those shares have been sold to the public under Rule 144 under the Securities Act; or

those shares have been transferred in a transaction where a subsequent public distribution of those shares would not require registration under the Securities Act.

ACE's ability to exercise its registration rights is subject to lock-up agreements described under "Shares Eligible for Future Sale."

Executive Loans

Between 1989 and 1993, Messrs. Jurschak and Donnelly borrowed an aggregate of \$112,612 and \$149,152, respectively, from Capital Re, which merged into ACE Financial Services in December 1999, to purchase stock of Capital Re. The stock of Capital Re was converted into ordinary shares of ACE upon completion of that merger. The loans accrued interest at the applicable federal rate, which was 1.52% per year during each of our last three fiscal years, and was forgiven each year. The amount of interest forgiven during each of our last three fiscal years was less than \$1,000 per individual. Mr. Jurschak repaid his loan in full in August 2002. Mr. Donnelly's loan was forgiven in December 2003.

MATERIAL TAX CONSIDERATIONS

The following summary of our taxation, and the taxation of our shareholders, is based upon current law and does not purport to be a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase common shares. Legislative, judicial or administrative changes may be forthcoming that could affect this summary.

The following legal discussion (including and subject to the matters and qualifications set forth in such summary) of the material tax considerations under (i) "Taxation of Assured Guaranty and Subsidiaries Bermuda" and "Taxation of Shareholders Bermuda Taxation" is based upon the advice of Conyers Dill & Pearman, special Bermuda legal counsel, (ii) "Taxation of Assured Guaranty and Subsidiaries United Kingdom" is based upon the advice of Mayer, Brown, Rowe & Maw LLP, (iii) "Taxation of Assured Guaranty and Subsidiaries Barbados" is based upon the advice of Fitzwilliam, Stone & Alcazar, special Barbados legal counsel, and (iv) "Taxation of Assured Guaranty and Subsidiaries United States" and "Taxation of Shareholders United States Taxation" is based upon the advice of Mayer, Brown, Rowe & Maw LLP. Each of these firms has reviewed the relevant portion of this discussion (as set forth above) and believes that such portion of the discussion constitutes, in all material respects, a fair and accurate summary of the relevant income tax considerations relating to Assured Guaranty and its subsidiaries and the ownership of Assured Guaranty's common shares by investors that are U.S. Persons (as defined below) who acquire such shares in the offering. The advice of such firms does not include any factual or accounting matters, determinations or conclusions such as insurance accounting determinations or RPII, amounts and computations and amounts or components thereof (for example, amounts or computations of income or expense items or reserves entering into RPII computations) or facts relating to the business, income, reserves or activities of Assured Guaranty and its subsidiaries. The advice of these firms relies upon and is premised on the accuracy of factual statements and representations made by Assured Guaranty concerning the business and properties, ownership, organization, source of income and manner of operation of Assured Guaranty and its subsidiaries. The discussion is based upon current law. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequences to holders of common shares. The tax treatment of a holder of common shares, or of a person treated as a holder of common shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder's particular tax situation. Statements contained herein as to the beliefs, expectations and conditions of Assured Guaranty and its subsidiaries as to the application of such tax laws or facts represent the view of management as to the application of such laws and do not represent the opinions of counsel. **PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF OWNING COMMON SHARES UNDER THE LAWS OF THEIR COUNTRIES OF CITIZENSHIP, RESIDENCE, ORDINARY RESIDENCE OR DOMICILE.**

Taxation of Assured Guaranty and Subsidiaries

Bermuda

Under current Bermuda law, there is no Bermuda income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax payable by us. Assured Guaranty, Assured Guaranty Corp., and the Bermuda Subsidiaries have each obtained from the Minister of Finance under The Exempted Undertaking Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to Assured Guaranty, Assured Guaranty Corp. or the Bermuda Subsidiaries or to any of their operations or their shares, debentures or other obligations, until March 28, 2016. This assurance is subject to the *proviso* that it is not to be construed so as to prevent the application of any tax or duty

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to such persons as are ordinarily resident in Bermuda, or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to any land leased to Assured Guaranty, Assured Guaranty Corp. or the Bermuda Subsidiaries. Assured Guaranty, Assured Guaranty Corp. and the Bermuda Subsidiaries each pay annual Bermuda government fees, and the Bermuda Subsidiaries and Assured Guaranty Corp. pay annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

United Kingdom

Assured Guaranty Finance Overseas and Assured Guaranty (UK) (the "UK Subsidiaries") are companies incorporated and managed in the United Kingdom and are, therefore, resident in the United Kingdom and will be subject to U.K. corporation tax on their worldwide profits (including revenue profits and capital gains). It is not expected that, in the context of the group's profitability as a whole, any such tax charges will be seen to be significant. The maximum rate of United Kingdom corporation tax is currently 30% on profits of whatever description. Currently, no United Kingdom withholding tax applies to dividends paid by the UK Subsidiaries.

Only the UK Subsidiaries are incorporated in the United Kingdom. Accordingly, except for the UK Subsidiaries, we should not be treated as being resident in the United Kingdom unless our central management and control is exercised in the United Kingdom. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. The directors of each of us, other than the UK Subsidiaries, intend to manage our affairs so that none of us, other than the UK Subsidiaries, are resident in the United Kingdom for tax purposes.

A company not resident in the United Kingdom for corporation tax purposes can nevertheless be subject to U.K. corporation tax if it carries on a trade through a branch or agency in the United Kingdom but the charge to U.K. corporation tax is limited to profits (including revenue profits and capital gains) connected with such branch or agency.

The directors of each of us, other than the UK Subsidiaries (which are resident in the United Kingdom), intend that we will operate in such a manner so that none of us, other than the UK Subsidiaries, carry on a trade through a branch or agency in the United Kingdom. Nevertheless, because neither case law nor U.K. statute definitively defines the activities that constitute trading in the United Kingdom through a branch or agency, the U.K. Inland Revenue might contend that any of us, other than the UK Subsidiaries, is/are trading in the United Kingdom through a branch or agency in the United Kingdom.

If any of the U.S. subsidiaries qualifying for benefits under the tax treaty between the United Kingdom and the United States were trading in the United Kingdom through a branch or agency, they would only be subject to U.K. corporation tax if the branch or agency constituted a permanent establishment for the purposes of that treaty and then only to the extent that any profits were attributable to that permanent establishment in the United Kingdom.

The United Kingdom has no income tax treaty with Bermuda.

There are circumstances in which companies that are neither resident in the United Kingdom nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on the profits of a trade carried on there, even if that trade is not carried on through a branch or agency, but the directors of each of us intend that we will operate in such a manner that none of us will fall within the charge to income tax in the United Kingdom (other than by deduction or withholding) in this respect.

If any of us, other than the UK Subsidiaries, were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if any of us were to be treated as carrying on a trade in the United Kingdom through a branch or agency or of having a permanent establishment in the United Kingdom, our results of operations and your investment could be adversely affected. Given the nature and extent of operations in the United Kingdom, however, it is not expected that such characterization is likely.

It should be noted that the United Kingdom Government has enacted legislation to modernize the taxation of foreign companies operating in the United Kingdom through branches, for accounting periods starting on or after January 1, 2003. A non-U.K. resident company will only fall within the charge to United Kingdom corporation tax if it carries on a trade in the United Kingdom through a permanent establishment. The term "permanent establishment" is defined for these purposes in a manner which is consistent with various internationally recognized characteristics commonly used in the United Kingdom's double tax treaties.

Barbados

Assured Guaranty Barbados Holdings, a subsidiary of AGRI, was incorporated in Barbados to act as a holding company for various companies in the United States and Bermuda. As such, Assured Guaranty Barbados Holdings was granted a license to conduct international business in accordance with the provisions of the International Business Companies Act, Cap. 77 as amended (the "Act"), and related regulations. The Minister of Industry and International Business (the "MIIB") has granted Assured Guaranty Barbados Holdings a guaranty that the benefits and exemptions contained in the Act will apply to Assured Guaranty Barbados Holdings.

Under the Act, Assured Guaranty Barbados Holdings is required to pay a maximum corporate tax rate of 2.5% on its worldwide profits, which reduces to 1% on taxable profits over U.S. \$15 million. Under the Act there is currently no withholding tax imposed on amounts paid by Assured Guaranty Barbados Holdings to persons not resident in Barbados. Additionally, under current Barbados law there is no capital gains tax and no tax is payable on the transfer of shares in Assured Guaranty Barbados Holdings if transferred to a person who is not resident in Barbados or to another international business company.

The Act governs the licensing and operations of international business companies. Licenses are issued by the MIIB, who has broad discretion over whether licenses are granted or refused. The MIIB has the authority to suspend or revoke a license if at any time a licensee fails to satisfy the conditions of the license, or is in violation of any provisions of the Act.

The Act imposes on Barbados international business companies certain reporting requirements. For example, a licensee that has gross revenues and assets that exceed Barbados \$1 million, which is approximately U.S. \$500,000, is required to forward to the MIIB annual audited financial statements prepared in accordance with generally accepted accounting principles.

United States

The following discussion is a summary of all material U.S. federal income tax considerations relating to our operations. We have conducted and intend to conduct substantially all of our foreign operations outside the United States and to limit the U.S. contacts of Assured Guaranty and its foreign subsidiaries (except AGRO, which has elected to be taxed as a U.S. corporation) so that they should not be engaged in a trade or business in the United States. However, whether business is being conducted in the United States is an inherently factual determination. Because the Internal Revenue Code of 1986, as amended (the "Code"), regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the United States, we cannot be certain that the IRS will not contend successfully that Assured Guaranty and/or its foreign subsidiaries (except

AGRO) are or will be engaged in a trade or business in the United States. A foreign corporation deemed to be so engaged would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business, unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation is generally entitled to deductions and credits only if it timely files a U.S. federal income tax return. Assured Guaranty and AGRI intend to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax. The highest marginal federal income tax rates currently are 35% for a corporation's effectively connected income and 30% for the "branch profits" tax.

If AGRI is entitled to the benefits under the income tax treaty between Bermuda and the United States (the "Bermuda Treaty"), it would not be subject to U.S. income tax on any income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. AGRI currently intends to conduct its activities so that it does not have a permanent establishment in the United States, although we cannot be certain that we will achieve this result.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (i) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (ii) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the United States or Bermuda nor U.S. citizens. Although we cannot be certain that AGRI will be eligible for Bermuda Treaty benefits immediately following the offering or in the future because of factual and legal uncertainties regarding the residency and citizenship of Assured Guaranty's shareholders, we will endeavor to so qualify. Assured Guaranty would not be eligible for treaty benefits because it is not an insurance company.

Foreign insurance companies carrying on an insurance business within the United States have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risk insured or reinsured by such companies. If AGRI is considered to be engaged in the conduct of an insurance business in the United States and is not entitled to the benefits of the Bermuda Treaty in general (because it fails to satisfy one of the limitations on treaty benefits discussed above), the Code could subject a significant portion of AGRI's investment income to U.S. income tax.

The United States and the United Kingdom have entered into a new income tax treaty which fully entered into force as of January 1, 2004 (the "New U.K. Treaty"). Under the provisions of the New U.K. Treaty, our UK Subsidiaries, if entitled to the benefits of the New U.K. Treaty, will not be subject to U.S. federal income tax on any income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. Our UK Subsidiaries will generally be entitled to the benefits of the New U.K. Treaty if, among other factors, (i) during at least half of the days during the relevant taxable period, at least 50% of our UK Subsidiaries' stock is beneficially owned, directly or indirectly, by citizens or residents of the United States and the United Kingdom, and less than 50% of our UK Subsidiaries' gross income for the relevant taxable period is paid or accrued, directly or indirectly, to persons who are not U.S. or U.K. residents in the form of payments that are deductible for purposes of U.K. taxation, (ii) with respect to specific items of income, profit or gain derived from the United States, if such income, profit or gain is considered to be derived in connection with, or incidental to, our UK Subsidiaries' business conducted in the United Kingdom or (iii) at least 50% of the aggregate vote and value of their shares is owned directly or indirectly by five or fewer U.K. resident companies the principal class of shares of which is

listed and regularly traded on a recognized stock exchange. Although we cannot be certain that our UK Subsidiaries will be eligible for treaty benefits under the New U.K. Treaty because of factual and legal uncertainties regarding (i) the residency and citizenship of Assured Guaranty's shareholders, and (ii) the interpretation of what constitutes income incidental to or connected with a trade or business in the United Kingdom, we will endeavor to so qualify.

Under the New U.K. Treaty, if a person was entitled to benefits under the income tax treaty in effect between the United Kingdom and the United States prior to January 1, 2004 (the "Old U.K. Treaty") and such person would have been entitled to greater benefits under the Old U.K. Treaty than under the New U.K. Treaty, then such person may elect the Old U.K. Treaty to continue to have effect with respect to such person for one year following the date on which the provisions of the New U.K. Treaty otherwise would have effect. It is not clear at this time whether our UK Subsidiaries will make such an election.

Foreign corporations not engaged in a trade or business in the United States are nonetheless subject to U.S. income tax imposed by withholding on certain "fixed or determinable annual or periodic gains, profits and income" derived from sources within the United States (such as dividends and certain interest on investments), subject to exemption under the Code or reduction by applicable treaties. Generally under the New U.K. Treaty the withholding rate on dividends is reduced to (i) 0% if the recipient has owned shares representing 80 percent or more of the voting power of the company paying the dividends for the year preceding the date the dividend is declared and meets other certain requirements, (ii) 5% if the recipient is a company that owns shares representing directly or indirectly at least 10 percent of the voting power of the company paying dividends or (iii) 15% in all other cases. The withholding rate on interest payments is reduced to 0%.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to AGRI and Assured Guaranty UK are 4% for casualty insurance premiums and 1% for reinsurance premium on life insurance premiums, subject to reduction to 0% under the U.K. Treaty with respect to premiums paid to Assured Guaranty UK.

Assured Guaranty US Holdings is a Delaware holding company. Its direct subsidiaries are Assured Guaranty Corp., a Maryland corporation and Assured Guaranty Financial Products, a Delaware corporation. Assured Guaranty Overseas US Holdings (a subsidiary of Assured Guaranty Barbados Holdings), is a Delaware corporation and its subsidiary, AGRO, is a Bermuda company which has elected under the Code to be taxed as a U.S. corporation. AGRO's subsidiary is Assured Guaranty Mortgage, which is a New York corporation. As such, each corporation will be subject to taxation in the United States at regular corporate rates. Dividends paid by Assured Guaranty US Holdings to Assured Guaranty will be subject to a 30% U.S. withholding tax. Dividends paid by Assured Guaranty Overseas US Holdings to Assured Guaranty Barbados Holdings would be subject to a 30% U.S. withholding tax, subject to possible reduction to 5% under the income tax treaty between Barbados and the United States. For treaty renegotiation and proposed legislative changes affecting the reduction in withholding tax, see "Taxation of Shareholders Proposed U.S. Tax Legislation."

Personal Holding Companies. Assured Guaranty and/or any of its subsidiaries could be subject to U.S. tax on a portion of its income if any of them are considered to be a personal holding company ("PHC") for U.S. federal income tax purposes. A corporation generally will be classified as a PHC for U.S. federal income tax purposes in a given taxable year if (i) at any time during the last half of such taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value and (ii) at least 60% of the corporation's gross income, as determined for U.S. federal income tax purposes, for such taxable year consists of "PHC income." PHC income includes, among other things, dividends, interest, royalties, annuities and, under certain circumstances, rents.

Under these constructive ownership rules, among other things, a partner will be treated as owning a proportionate amount of the stock owned by the partnership and a partner who is an individual will be treated as owning the stock owned by his or her partners. Also, stock treated as owned by such partner proportionally through such partnership will be treated as owned by the partner for purposes of reapplying the constructive ownership rules. Additionally, certain entities (such as certain tax-exempt organizations and pension funds) will be treated as individuals. The PHC rules contain an exception for foreign corporations that are classified as Foreign Personal Holding Companies (as discussed below).

If Assured Guaranty or any subsidiary were a PHC in a given taxable year, such corporation would be subject to PHC tax (currently at a rate of 15%) on its "undistributed PHC income" (which, in the case of its foreign subsidiaries, would exclude PHC income that is from non-U.S. sources, except to the extent that such income is effectively connected with a trade or business in the U.S.). For taxable years beginning after December 31, 2008, the PHC tax rate would be the highest marginal rate on ordinary income applicable to individuals. Thus, the PHC income of Assured Guaranty and its foreign subsidiaries would not include underwriting income or investment income derived from non-U.S. sources and should not include dividends received by Assured Guaranty from its foreign subsidiaries (as long as such foreign subsidiaries are not engaged in the trade or business in the U.S.).

We believe based upon information made available to us regarding our existing shareholder base and the expected dispersion of ownership of our common shares following the offering that neither Assured Guaranty nor any of its subsidiaries should be considered a PHC for U.S. federal income tax purposes immediately following the offering. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold.

We cannot be certain, however, that Assured Guaranty and its subsidiaries will not become PHCs following the offering or in the future because of factors including legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of Assured Guaranty's shareholder base, the gross income of Assured Guaranty or any of its subsidiaries and other circumstances that could change the application of the PHC rules to Assured Guaranty and its subsidiaries. In addition, if Assured Guaranty or any of its subsidiaries were to become PHCs we cannot be certain that the amount of PHC income will be immaterial.

Taxation of Shareholders

Bermuda Taxation

Currently, there is no Bermuda withholding or other tax payable on principal, interests or dividends paid to the holders of the common shares of Assured Guaranty.

United States Taxation

The following summary sets forth the material U.S. federal income tax considerations related to the purchase, ownership and disposition of common shares. Unless otherwise stated, this summary deals only with holders that are U.S. Persons (as defined below) who purchase their common shares in this offering and who hold their common shares as capital assets within the meaning of section 1221 of the Code. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder's specific circumstances. For example, if a partnership holds our common shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the common shares, you should consult your tax advisors. In addition, the following summary does not address the U.S. federal income tax consequences that may be relevant to special classes of shareholders, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers or

traders in securities, tax exempt organizations, expatriates, persons who are considered with respect to any of us as "United States shareholders" for purposes of the controlled foreign corporation ("CFC") rules of the Code (generally, a U.S. Person, as defined below, who owns or is deemed to own 10% or more of the total combined voting power of all classes of Assured Guaranty or the stock of any of our foreign subsidiaries entitled to vote (i.e., 10% U.S. Shareholders)), or persons who hold the common shares as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code. This discussion is based upon the Code, the regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the United States.

For purposes of this discussion, the term "U.S. Person" means: (i) a citizen or resident of the United States, (ii) a partnership or corporation, or entity treated as a corporation, created or organized in or under the laws of the United States, or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if either (x) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. Persons have the authority to control all substantial decisions of such trust or (y) the trust has a valid election in effect to be treated as a U.S. Person for U.S. federal income tax purposes or (v) any other person or entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing.

Taxation of Dividends. Subject to the discussions below relating to the potential application of the CFC, related person insurance income ("RPII"), passive foreign investment company ("PFIC") and foreign personal holding company ("FPHC") rules, cash distributions, if any, made with respect to the common shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of Assured Guaranty (as computed using U.S. tax principles). Under recently enacted legislation, certain dividends paid to individual shareholders before 2009 are eligible for reduced rates of tax. Dividends paid by Assured Guaranty to corporate shareholders will not be eligible for the dividends received deduction. To the extent such distributions exceed Assured Guaranty's earnings and profits, they will be treated first as a return of the shareholder's basis in the common shares to the extent thereof, and then as gain from the sale of a capital asset.

Classification of Assured Guaranty or its Foreign Subsidiaries as Controlled Foreign Corporation. Each 10% U.S. Shareholder (as defined below) of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and who owns shares in the CFC, directly or indirectly through foreign entities, on the last day of the CFC's taxable year, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. A foreign corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules of section 958(b) of the Code (i.e., "constructively")) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or more than 50% of the total value of all stock of such corporation on any day during the taxable year of such corporation. For purposes of taking into account insurance income, a CFC also includes a foreign insurance company in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation. A "10% U.S. Shareholder" is a U.S. Person who owns (directly, indirectly through foreign entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. We believe that because of the anticipated dispersion of our share ownership, provisions in our organizational documents that limit

voting power (these provisions are described in "Description of Share Capital") and other factors, no U.S. Person who owns shares of Assured Guaranty directly or indirectly through one or more foreign entities should be treated as owning (directly, indirectly through foreign entities, or constructively), 10% or more of the total voting power of all classes of shares of Assured Guaranty or any of its foreign subsidiaries. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. Additionally, Assured Guaranty (UK) will be considered a CFC for U.S. federal income tax purposes, therefore, Assured Guaranty Corp. will be required to include in its gross income its share of Assured Guaranty (UK)'s subpart F income, even if such subpart F income is not distributed.

The RPII CFC Provisions. The following discussion generally is applicable only if the RPII of AGRI determined on a gross basis, is 20% or more of AGRI's gross insurance income for the taxable year and the 20% Ownership Exception (as defined below) is not met. The following discussion generally would not apply for any fiscal year in which AGRI's gross RPII falls below the 20% threshold or the 20% Ownership Exception is met. Although we cannot be certain, Assured Guaranty believes that the gross RPII of AGRI as a percentage of its gross insurance income was in prior years of operations and will be for the foreseeable future below the 20% threshold for each tax year.

RPII is any "insurance income" (as defined below) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a "RPII shareholder" (as defined below) or a "related person" (as defined below) to such RPII shareholder. In general, and subject to certain limitations, "insurance income" is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract which would be taxed under the portions of the Code relating to insurance companies if the income were the income of a domestic insurance company. For purposes of inclusion of the RPII of AGRI in the income of RPII shareholders, unless an exception applies, the term "RPII shareholder" means any U.S. Person who owns (directly or indirectly through foreign entities) any amount of Assured Guaranty's common shares. Generally, the term "related person" for this purpose means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock applying certain constructive ownership principles. A corporation's pension plan is ordinarily not a "related person" with respect to the corporation unless the pension plan owns, directly or indirectly through the application of certain constructive ownership rules, more than 50% measured by vote or value, of the stock of the corporation. AGRI will be treated as a CFC under the RPII provisions if RPII shareholders are treated as owning (directly, indirectly through foreign entities or constructively) 25% or more of the shares of Assured Guaranty by vote or value.

RPII Exceptions. The special RPII rules do not apply if (i) direct and indirect insureds and persons related to such insureds, whether or not U.S. Persons, are treated as owning (directly or indirectly through foreign entities) less than 20% of the voting power and less than 20% of the value of the stock of Assured Guaranty (the "20% Ownership Exception"), (ii) RPII, determined on a gross basis, is less than 20% of AGRI's gross insurance income for the taxable year (the "20% Gross Income Exception"), (iii) AGRI elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a U.S. trade or business, and to waive all treaty benefits with respect to RPII and meet certain other requirements or (iv) AGRI elects to be treated as a U.S. corporation and waive all treaty benefits and meet certain other requirements. Where none of these exceptions applies, each U.S. Person owning or treated as owning any shares in Assured Guaranty (and therefore, indirectly, in AGRI) on the last day of Assured Guaranty's taxable year will be required to include in its gross income for U.S. federal income tax purposes its share of the RPII for the portion of the taxable year during which AGRI was a CFC under the RPII provisions, determined as if all such RPII were distributed proportionately only to such U.S. Persons at that date, but limited by each such U.S. Person's share of AGRI's current-year earnings and profits as reduced by the U.S. Person's share, if

any, of certain prior-year deficits in earnings and profits. AGRI intends to operate in a manner that is intended to ensure that each qualifies for the 20% Gross Income Exception. Although we believe that the gross RPII of AGRI has not in the past equaled or exceeded 20% of its gross insurance income, and do not expect it to do so in the foreseeable future, it is possible that we will not be successful in qualifying under this exception.

Computation of RPII. In order to determine how much RPII AGRI has earned in each taxable year, AGRI may obtain and rely upon information from their insureds and reinsureds to determine whether any of the insureds, reinsureds or persons related thereto own (directly or indirectly through foreign entities) shares of Assured Guaranty and are U.S. Persons. Assured Guaranty may not be able to determine whether any of the underlying direct or indirect insureds to which AGRI provides insurance or reinsurance are shareholders or related persons to such shareholders. Consequently, Assured Guaranty may not be able to determine accurately the gross amount of RPII earned by AGRI in a given taxable year. For any year in which AGRI's gross RPII is 20% or more of its gross insurance income for the year and AGRI does not meet the 20% Ownership Exception, Assured Guaranty may also seek information from its shareholders as to whether beneficial owners of common shares at the end of the year are U.S. Persons so that the RPII may be determined and apportioned among such persons; to the extent Assured Guaranty is unable to determine whether a beneficial owner of common shares is a U.S. Person, Assured Guaranty may assume that such owner is not a U.S. Person, thereby increasing the per share RPII amount for all known RPII shareholders.

If, as expected, gross RPII is less than 20% of gross insurance income, RPII shareholders will not be required to include RPII in their taxable income. The amount of RPII includable in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

Apportionment of RPII to U.S. Holders. Every RPII shareholder who owns common shares on the last day of any taxable year of Assured Guaranty in which AGRI's gross insurance income constituting RPII for that year equals or exceeds 20% of AGRI's gross insurance income and AGRI does not meet the 20% Ownership Exception should expect that for such year it will be required to include in gross income its share of AGRI's RPII for the portion of the taxable year during which AGRI was a CFC under the RPII provisions, whether or not distributed, even though it may not have owned the shares throughout such period. A RPII shareholder who owns common shares during such taxable year but not on the last day of the taxable year is not required to include in gross income any part of AGRI's RPII.

Basis Adjustments. A RPII shareholder's tax basis in its common shares will be increased by the amount of any RPII that the shareholder includes in income. The RPII shareholder may exclude from income the amount of any distributions by Assured Guaranty out of previously taxed RPII income. The RPII shareholder's tax basis in its common shares will be reduced by the amount of such distributions that are excluded from income.

Uncertainty as to Application of RPII. The RPII provisions have never been interpreted by the courts or the Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. These provisions include the grant of authority to the Treasury Department to prescribe "such regulations as may be necessary to carry out the purpose of this subsection including . . . regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise." Accordingly, the meaning of the RPII provisions and the application thereof to AGRI is uncertain. In addition, we cannot be certain that the amount of RPII or the amounts of the RPII inclusions for any particular RPII shareholder, if any, will not be subject to

adjustment based upon subsequent IRS examination. Any prospective investor considering an investment in common shares should consult his tax advisor as to the effects of these uncertainties.

Tax-Exempt Shareholders. Tax-exempt entities will be required to treat certain subpart F insurance income, including RPII, that is includible in income by the tax-exempt entity as unrelated business taxable income. Prospective investors that are tax exempt entities are urged to consult their tax advisors as to the potential impact of the unrelated business taxable income provisions of the Code. A tax-exempt organization that is treated as a 10% U.S. Shareholder or a RPII Shareholder also must file IRS Form 5471 in the circumstances described below in " Information Reporting and Backup Withholding."

Dispositions of Common Shares. Subject to the discussions below relating to the potential application of the Code section 1248 and PFIC rules, holders of common shares generally should recognize capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of common shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. If the holding period for these common shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 15% for individuals and 35% for corporations. Moreover, gain, if any, generally will be a U.S. source gain and generally will constitute "passive income" for foreign tax credit limitation purposes.

Code section 1248 provides that if a U.S. Person sells or exchanges stock in a foreign corporation and such person owned, directly, indirectly through certain foreign entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC's earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). We believe that because of the anticipated dispersion of our share ownership, provisions in our organizational documents that limit voting power and other factors that no U.S. shareholder of Assured Guaranty should be treated as owning (directly, indirectly through foreign entities or constructively) 10% or more of the total voting power of Assured Guaranty; to the extent this is the case this application of Code Section 1248 under the regular CFC rules should not apply to dispositions of our common shares. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. In the event this is determined necessary, Assured Guaranty will provide a completed IRS Form 5471 or the relevant information necessary to complete the Form. Code section 1248 also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10% U.S. Shareholder or whether RPII constitutes 20% or more of the corporation's gross insurance income or the 20% Ownership Exception applies. Existing proposed regulations do not address whether Code section 1248 would apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. We believe, however, that this application of Code section 1248 under the RPII rules should not apply to dispositions of common shares because Assured Guaranty will not be directly engaged in the insurance business. We cannot be certain, however, that the IRS will not interpret the proposed regulations in a contrary manner or that the Treasury Department will not amend the proposed regulations to provide that these rules will apply to dispositions of common shares. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of common shares.

Passive Foreign Investment Companies. In general, a foreign corporation will be a PFIC during a given year if (i) 75% or more of its gross income constitutes "passive income" or (ii) 50% or more of its assets produce passive income.

If Assured Guaranty were characterized as a PFIC during a given year, U.S. Persons holding common shares would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an "excess distribution" with respect to, their shares, unless such persons made a "qualified electing fund election" or "mark-to-market" election. It is uncertain that Assured Guaranty would be able to provide its shareholders with the information necessary for a U.S. Person to make these elections. In general, a shareholder receives an "excess distribution" if the amount of the distribution is more than 125% of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taken in equal portion at the highest applicable tax rate on ordinary income throughout the shareholder's period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of U.S. federal income tax for such period. In addition, a distribution paid by Assured Guaranty to U.S. shareholders that is characterized as a dividend and is not characterized as an excess distribution would not be eligible for a reduced rate of tax under recently enacted legislation with respect to dividends paid before 2009.

For the above purposes, passive income generally includes interest, dividends, annuities and other investment income. The PFIC rules provide that income "derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business . . . is not treated as passive income." This exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. The PFIC provisions also contain a look-through rule under which a foreign corporation shall be treated as if it "received directly its proportionate share of the income" and as if it "held its proportionate share of the assets" of any other corporation in which it owns at least 25% of the value of the stock.

We expect for purposes of the PFIC rules, that each of Assured Guaranty Mortgage, Assured Guaranty Corp., AGRO, AGRI and Assured Guaranty UK (collectively, the "Insurance Subsidiaries") will be predominantly engaged in an insurance business and is unlikely to have financial reserves in excess of the reasonable needs of its insurance business in each year of operations. Accordingly, none of the income or assets of the Insurance Subsidiaries should be treated as passive. Further, we expect that the passive income and assets (other than the stock of any indirect Assured Guaranty subsidiary) of any other Assured Guaranty subsidiary will be de minimis in each year of operations with respect to the overall income and assets of Assured Guaranty. Under the look-through rule, Assured Guaranty should be deemed to own its proportionate share of the assets and to have received its proportionate share of the income of its direct and indirect subsidiaries for purposes of the 75% test and the 50% test. As a result, we believe that Assured Guaranty was not and should not be treated as a PFIC. We cannot be certain, however, as there are currently no regulations regarding the application of the PFIC provisions to an insurance company and new regulations or pronouncements interpreting or clarifying these rules may be forthcoming, that the IRS will not challenge this position and that a court will not sustain such challenge. Prospective investors should consult their tax advisor as to the effects of the PFIC rules.

Foreign Personal Holding Companies. A foreign corporation will be classified as an FPHC for U.S. federal income tax purposes if (i) at any time during the taxable year at issue, five or fewer individuals who are U.S. citizens or residents own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of all classes of the corporation's stock measured by voting power or value and (ii) at least 60% of its gross income for the year is "FPHC income." Under these

constructive ownership rules, among other things, a partner will be treated as owning a proportionate amount of the stock owned by the partnership and a partner who is an individual will be treated as owning the stock owned by his partners. Also, stock treated as owned by such partner proportionally through such partnership will be treated as owned by the partner for purposes of reapplying the constructive ownership rules. If Assured Guaranty or any of its foreign subsidiaries were to become FPHCs, a portion of the "undistributed foreign personal holding company income" (as defined for U.S. federal income tax purposes) of each such FPHC would be imputed to all of Assured Guaranty's shareholders who are U.S. Persons. Such income would be taxable as a dividend and should not be eligible for a reduced rate of tax under recently enacted legislation, even if no cash dividend were actually paid. In such event, subsequent cash distributions will first be treated as a tax-free return of any previously taxed and undistributed amounts. In addition, a distribution paid by Assured Guaranty to a U.S. shareholder that is not treated as a tax-free return of any previously taxed and undistributed amount and is characterized as a dividend would not be eligible for a reduced rate of tax under recently enacted legislation with respect to dividends paid before 2009. Further, in such case, upon the death of any U.S. individual owning common shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the common shares which might otherwise be available under U.S. federal income tax laws. Moreover, each shareholder who owns, directly or indirectly, 10% or more of the value of an FPHC is required to file IRS Form 5471. We believe, based upon information made available to us regarding our existing shareholder base and the expected dispersion of ownership of our common shares following this offering, that neither Assured Guaranty nor any of its foreign subsidiaries should be considered an FPHC for any prior year of operations or immediately following the offering. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold. We cannot be certain, however, that Assured Guaranty and/or any of its foreign subsidiaries will not be considered an FPHC, because of factors including legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of Assured Guaranty's shareholder base, the gross income of Assured Guaranty and/or any of its foreign subsidiaries and other circumstances that could change the application of the FPHC rules to Assured Guaranty and its foreign subsidiaries. In addition, if Assured Guaranty or any of its foreign subsidiaries were to become an FPHC we cannot be certain that the amount of FPHC income will be immaterial. If Assured Guaranty (UK) were considered an FPHC, then its parent, Assured Guaranty Corp., could be subject to additional tax under these rules. However, because Assured Guaranty (UK) will be characterized as a CFC, Assured Guaranty Corp. will instead be subject to the rules applying to CFCs.

Foreign tax credit. For U.S. Persons that own shares, which we anticipate will constitute a majority of shares, only a portion of the current income inclusions, if any, under the CFC, RPII and PFIC rules and of dividends paid by us (including any gain from the sale of common shares that is treated as a dividend under section 1248 of the Code) will be treated as foreign source income for purposes of computing a shareholder's U.S. foreign tax credit limitations. We will consider providing shareholders with information regarding the portion of such amounts constituting foreign source income to the extent such information is reasonably available. It is also likely that substantially all of the "subpart F income," RPII and dividends that are foreign source income will constitute either "passive" or "financial services" income for foreign tax credit limitation purposes. Thus, it may not be possible for most shareholders to utilize excess foreign tax credits to reduce U.S. tax on such income.

Information Reporting and Backup Withholding. Under certain circumstances, U.S. Persons owning stock in a foreign corporation are required to file IRS Form 5471 with their U.S. federal income tax returns. Generally, information reporting on IRS Form 5471 is required by (i) a person who is treated as a RPII shareholder, (ii) a 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and who owned the stock on the last day of that year and (iii) under certain circumstances, a U.S. Person who acquires stock in a foreign corporation and as a result thereof owns 10% or more of the voting power or value of such foreign corporation, whether or not such foreign corporation is a CFC. For any taxable

year in which Assured Guaranty determines that gross RPII constitutes 20% or more of AGRI's gross insurance income and the 20% Ownership Exception does not apply, Assured Guaranty will provide to all U.S. Persons registered as shareholders of its common shares a completed IRS Form 5471 or the relevant information necessary to complete the form. Failure to file IRS Form 5471 may result in penalties.

Information returns may be filed with the IRS in connection with distributions on the common shares and the proceeds from a sale or other disposition of the common shares unless the holder of the common shares establishes an exemption from the information reporting rules. A holder of common shares that does not establish such an exemption may be subject to U.S. backup withholding tax on these payments if the holder is not a corporation or non-U.S. Person or fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Person will be allowed as a credit against the U.S. Person's U.S. federal income tax liability and may entitle the U.S. Person to a refund, provided that the required information is furnished to the IRS.

Proposed U.S. Tax Legislation. Legislation has been introduced in the U.S. Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections. In this regard, legislation has been introduced that affects the U.S. tax treatment of foreign corporation that are deemed to have "inverted" and other legislation has been introduced that includes provisions that would permit the IRS to reallocate or recharacterize items of income, deduction or certain other items related to a reinsurance agreement between related parties to reflect the proper source, character or amount for each item (in contrast to current law, which only refers to source and character). Other legislation would provide additional limits on the deductibility of interest by foreign owned U.S. corporations. While there are no currently pending legislative proposals on these matters which, if enacted, would have a material adverse effect on us or our shareholders, it is possible that broader-based legislative proposals could emerge in the future that could have an adverse impact on us or our shareholders.

Additionally, the U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States or is a PFIC, or whether U.S. Persons would be required to include in their gross income the "subpart F income" or the RPII of a CFC, are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

The U.S. Treasury Department is considering proposals, and legislation has been introduced in the U.S. Congress, intended to limit significantly the benefits available under the income tax treaty between the United States and Barbados. Under the current treaty, dividends paid to Assured Guaranty Barbados Holdings by Assured Guaranty Overseas U.S. Holdings are subject to a reduced withholding tax rate of 5%. However, possible changes to the treaty may result in the inability of Assured Guaranty Barbados Holdings and Assured Guaranty Overseas U.S. Holdings to continue to enjoy the reduced rate, in which case dividends paid to Assured Guaranty Barbados Holdings by Assured Guaranty Overseas U.S. Holdings would be subject to withholding tax at a rate of 30%. We cannot be certain if or when such changes to the treaty may be enacted, but it is possible that such changes in the future could have an adverse impact on us or our shareholders.

DESCRIPTION OF SHARE CAPITAL

The following summary of our share capital is qualified in its entirety by the provisions of Bermuda law, our memorandum of association and Bye-Laws, copies of which will be filed as exhibits to the registration statement of which this prospectus is a part, and alterations to the conditions of our memorandum of association with respect to the share capital, all of which will be in effect upon completion of this offering. In this section, the "Company," "we," "us" and "our" refer to Assured Guaranty Ltd. and not to any of its subsidiaries.

General

We have an authorized share capital of \$5,000,000 divided into 500,000,000 shares, par value U.S. \$0.01 per share, of which 75,000,000 common shares will be issued and outstanding and beneficially owned by ACE upon completion of the formation transactions. An additional 937,417 restricted common shares will be issued to our officers and employees in connection with this offering. Except as described below, our common shares will have no preemptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of our common shares are entitled to share equally, in proportion to the number of common shares held by such holder, in our assets, if any remain after the payment of all our debts and liabilities and the liquidation preference of any outstanding preferred shares. Under certain circumstances, we have the right to purchase all or a portion of the shares held by a shareholder. See "Acquisition of Common Shares by Us" below. All of the common shares being sold in this offering are fully paid and non-assessable. Holders of our common shares are entitled to receive such dividends as lawfully may be declared from time to time by our board of directors.

Voting Rights and Adjustments

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote with respect to their fully paid shares at all meetings of shareholders. However, if, and so long as, the common shares (and other of our shares) of a shareholder are treated as "controlled shares" (as determined pursuant to section 958 of the Code) of any "United States person" as defined in the Code (a "U.S. Person") and such controlled shares constitute 9.5% or more of the votes conferred by our issued and outstanding shares, the voting rights with respect to the controlled shares owned by such U.S. Person shall be limited, in the aggregate, to a voting power of less than 9.5% of the voting power of all issued and outstanding shares, under a formula specified in our Bye-laws. The formula is applied repeatedly until there is no U.S. Person whose controlled shares constitute 9.5% or more of the voting power of all issued and outstanding shares and who generally would be required to recognize income with respect to us under the Code if we were a controlled foreign corporation as defined in the Code and if the ownership threshold under the Code were 9.5% (as defined in our Bye-Laws as a "9.5% U.S. Shareholder"). In addition, our board of directors may determine that shares held carry different voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5% U.S. Shareholder; and (ii) avoid adverse tax, legal or regulatory consequences to the Company or any of its subsidiaries or any direct or indirect holder of shares or its affiliates. "Controlled shares" includes, among other things, all shares of Assured Guaranty that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). The foregoing provision does not apply to ACE because it is not a U.S. Shareholder. Further, these provisions do not apply in the event one shareholder owns greater than 75% of the voting power of all issued and outstanding shares.

Under these provisions, certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. Moreover, these provisions could have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the 9.5% limitation by virtue of their direct share ownership. Our

Bye-laws provide that we will use our best efforts to notify shareholders of their voting interests prior to any vote to be taken by them.

Our board of directors is authorized to require any shareholder to provide information for purposes of determining whether any holder's voting rights are to be adjusted, which may be information on beneficial share ownership, the names of persons having beneficial ownership of the shareholder's shares, relationships with other shareholders or any other facts our board of directors may deem relevant. If any holder fails to respond to this request or submits incomplete or inaccurate information, our board of directors may eliminate the shareholder's voting rights. All information provided by the shareholder will be treated by us as confidential information and shall be used by us solely for the purpose of establishing whether any 9.5% U.S. Shareholder exists and applying the adjustments to voting power (except as otherwise required by applicable law or regulation).

Restrictions on Transfer of Common Shares

Each transfer must comply with current Bermuda Monetary Authority permission or have specific permission from the Bermuda Monetary Authority. Our board of directors may decline to register a transfer of any common shares under certain circumstances, including if they have reason to believe that any adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders or indirect holders of shares or its Affiliates may occur as a result of such transfer (other than such as our board of directors considers de minimis). Transfers must be by instrument unless otherwise permitted by the Companies Act.

The restrictions on transfer and voting restrictions described above may have the effect of delaying, deferring or preventing a change in control of Assured Guaranty.

Acquisition of Common Shares by Us

Under our Bye-Laws and subject to Bermuda law, if our board of directors determines that any ownership of our shares may result in adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders or indirect holders of shares or its Affiliates (other than such as our board of directors considers de minimis), we have the option, but not the obligation, to require such shareholder to sell to us or to a third party to whom we assign the repurchase right the minimum number of common shares necessary to avoid or cure any such adverse consequences at a price determined in the discretion of the board of directors to represent the shares' fair market value (as defined in our Bye-Laws).

Issuance of Shares

Subject to our Bye-Laws and Bermuda law, our board of directors has the power to issue any of our unissued shares as it determines, including the issuance of any shares or class of shares with preferred, deferred or other special rights.

Bye-Laws

In addition to the provisions of the Bye-Laws described above under " Voting Rights and Adjustments," the following provisions are a summary of some of the other important provisions of our Bye-Laws.

Our Board of Directors and Corporate Action. Our Bye-Laws provide that our board of directors shall consist of not less than three and not more than 21 directors, the exact number as determined by the board of directors. Upon completion of this offering, our board of directors will consist of eight persons, and will be divided into three classes. The classification and current term of office for each of our directors is noted under "Management Board of Directors." Each director elected after this offering generally will serve a three year term, with termination staggered according to class. Shareholders may only remove a director for cause (as defined in our Bye-Laws) at a general meeting,

provided that the notice of any such meeting convened for the purpose of removing a director shall contain a statement of the intention to do so and shall be provided to that director at least two weeks before the meeting. Vacancies on the board of directors can be filled by the board of directors if the vacancy occurs in those events set out in our Bye-Laws as a result of death, disability, disqualification or resignation of a director, or from an increase in the size of the board of directors.

Generally under our Bye-Laws, the affirmative votes of a majority of the votes cast at any meeting at which a quorum is present is required to authorize a resolution put to vote at a meeting of the board of directors. Corporate action may also be taken by a unanimous written resolution of the board of directors without a meeting. A quorum shall be at least one-half of directors then in office present in person or represented by a duly authorized representative, provided that at least two directors are present in person.

Shareholder Action. At the commencement of any general meeting, two or more persons present in person and representing, in person or by proxy, more than 50% of the issued and outstanding shares entitled to vote at the meeting shall constitute a quorum for the transaction of business. In general, anything that may be done by resolution of our shareholders in a general meeting may be taken, without a meeting, by a resolution in writing signed by all of the shareholders entitled to attend such meeting and vote on the resolution. In general, any questions proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the Bye-Laws.

The Bye-Laws contain advance notice requirements for shareholder proposals and nominations for directors, including when proposals and nominations must be received and the information to be included.

Amendment. The Bye-Laws may be amended only by a resolution adopted by the board of directors and by resolution of the shareholders.

Voting of Non-U.S. Subsidiary Shares. If we are required or entitled to vote at a general meeting of any of AGRI, Assured Guaranty Finance Overseas or any other directly held non-U.S. subsidiary of ours, our board of directors shall refer the subject matter of the vote to our shareholders and seek direction from such shareholders as to how they should vote on the resolution proposed by the non-U.S. subsidiary. Our board of directors in its discretion shall require substantially similar provisions are or will be contained in the bye-laws (or equivalent governing documents) of any direct or indirect non-U.S. subsidiaries other than Assured Guaranty (UK) and AGRO.

Anti-Takeover Provisions and Insurance Regulations Concerning Change of Control

Some of the provisions of our Bye-Laws, as well as certain insurance regulations concerning change of control, could delay or prevent a change of control of the Company that a shareholder might consider favorable. See "Risk Factors Risks Related to Our Common Shares and this Offering."

Differences in Corporate Law

You should be aware that the Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. In order to highlight these differences, set forth below is a summary of certain significant provisions of the Companies Act applicable to us (including modifications adopted pursuant to our Bye-Laws) which differ in certain respects from provisions of the corporate law of the State of Delaware. Because the following statements are summaries, they do not address all aspects of Bermuda law that may be relevant to us and our shareholders.

Duties of Directors. Under Bermuda common law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company,

and to exercise their powers and fulfill the duties of their office honestly. This duty has the following essential elements:

a duty to act in good faith in the best interests of the company;

a duty not to make a personal profit from opportunities that arise from the office of director;

a duty to avoid conflicts of interest; and

a duty to exercise powers for the purpose for which such powers were intended.

The Companies Act imposes a duty on directors and officers of a Bermuda company:

to act honestly and in good faith, with a view to the best interests of the company; and

to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In addition, the Companies Act imposes various duties on officers of a company with respect to certain matters of management and administration of the company.

The Companies Act provides that in any proceedings for negligence, default, breach of duty or breach of trust against any officer, if it appears to a court that such officer is or may be liable in respect of the negligence, default, breach of duty or breach of trust, but that he has acted honestly and reasonably, and that, having regard to all the circumstances of the case, including those connected with his appointment, he ought fairly to be excused for the negligence, default, breach of duty or breach of trust, that court may relieve him, either wholly or partly, from any liability on such terms as the court may think fit. This provision has been interpreted to apply only to actions brought by or on behalf of the company against such officers. Our Bye-Laws, however, provide that we and each of our shareholders waive all claims or rights of action that they might have, individually or in the right of the Company, against any director or officer of us (and others identified in the Bye-Laws) for any act or failure to act in the performance of such director's or officer's duties, provided that this waiver does not extend to any claims or rights of action that arise out of fraud or dishonesty on the part of such director or officer.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders.

The duty of care requires that directors act in an informed and deliberate manner, and inform themselves, prior to making a business decision, of all relevant material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of corporate employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner which the director reasonably believes to be in the best interests of the shareholders.

Under the "business judgment rule," courts generally do not second guess the business judgment of directors and officers. A party challenging the propriety of a decision of a board of directors bears the burden of rebutting the presumption afforded to directors by the business judgment rule. If the presumption is not rebutted, the business judgment rule attaches to protect the directors from liability for their decisions. Where, however, the presumption is rebutted, the directors bear the burden of demonstrating the fairness of the relevant transaction. However, when the board of directors takes defensive actions in response to a threat to corporate control and approves a transaction resulting in a sale of control of the corporation, Delaware courts subject directors' conduct to enhanced scrutiny.

Interested Directors. Under Bermuda law and our Bye-Laws, a transaction entered into by us, in which a director has an interest, will not be voidable by us, and such director will not be liable to us for any profit realized pursuant to such transaction, provided the nature of the interest is duly disclosed at

the first opportunity at a meeting of directors, or in writing to the directors. In addition, our Bye-Laws allow a director to be taken into account in determining whether a quorum is present and to vote on a transaction in which the director has an interest following a declaration of the interest pursuant to the Companies Act, provided that the director is not disqualified from doing so by the chairman of the meeting. Under Delaware law, such a transaction would not be voidable if (i) the material facts with respect to such interested director's relationship or interests are disclosed or are known to the board of directors, and the board of directors in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (ii) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction, and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon, or (iii) the transaction is fair to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, an interested director could be held liable for a transaction in which such director derived an improper personal benefit.

Dividends. Bermuda law does not permit the declaration or payment of dividends or distributions of contributed surplus by a company if there are reasonable grounds for believing that the company, after the payment is made, would be unable to pay its liabilities as they become due, or the realizable value of the company's assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. The excess of the consideration paid on issue of shares over the aggregate par value of such shares must (except in certain limited circumstances) be credited to a share premium account. Share premium may be distributed in certain limited circumstances, for example to pay up unissued shares which may be distributed to shareholders in proportion to their holdings, but is otherwise subject to limitation. In addition, our ability to declare and pay dividends and other distributions is subject to Bermuda insurance laws and regulatory constraints. See "Dividend Policy" and "Business Regulation."

Under Delaware law, subject to any restrictions contained in the company's certificate of incorporation, a company may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Delaware law also provides that dividends may not be paid out of net profits at any time when capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Amalgamations, Mergers and Similar Arrangements. We may acquire the business of another Bermuda exempted company or a company incorporated outside Bermuda when conducting such business would benefit us and would be conducive to attaining our objectives contained within our memorandum of association. We may, with the approval of our board and, except in the case of amalgamations with and between wholly owned subsidiaries being Bermuda companies, at least 75% of the votes cast at a general meeting of our shareholders at which a quorum is present, amalgamate with another Bermuda company or with a body incorporated outside Bermuda. In the case of an amalgamation, a shareholder may apply to a Bermuda court for a proper valuation of such shareholder's shares if such shareholder is not satisfied that fair market value has been paid for such shares. The court ordinarily would not disapprove the transaction on that ground absent evidence of fraud or bad faith.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the outstanding shares entitled to vote thereon. Under Delaware law, a shareholder of a corporation participating in certain major corporate transactions may, under certain circumstances, be entitled to appraisal rights pursuant to which such shareholder may receive payment in the amount of the fair market value of the shares held by such shareholder (as determined by a court) in lieu of the consideration such shareholder would otherwise receive in the transaction.

Takeovers. Bermuda law provides that where an offer is made for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholders to show that the court should exercise its discretion to enjoin the required transfer, which the court will be unlikely to do unless there is evidence of fraud or bad faith or collusion between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders. Delaware law provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any subsidiary of which it owns at least 90% of each class of capital stock. Upon any such merger, dissenting shareholders of the subsidiary would have appraisal rights.

Certain Transactions with Significant Shareholders. As a Bermuda company, we may enter into certain business transactions with our significant shareholders, including asset sales, in which a significant shareholder receives, or could receive, a financial benefit that is greater than that received, or to be received, by other shareholders with prior approval from our board of directors but without obtaining prior approval from our shareholders. If we were a Delaware corporation, we would need, subject to certain exceptions, prior approval from shareholders holding at least two-thirds of our outstanding common stock not owned by such interested shareholder to enter into a business combination (which, for this purpose, includes asset sales of greater than 10% of our assets that would otherwise be considered transactions in the ordinary course of business) with an interested shareholder for a period of three years from the time the person became an interested shareholder, unless we had opted out of the relevant Delaware statute, as provided for in that statute.

Shareholders' Suits. The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in our name to remedy a wrong done to us where the act complained of is alleged to be beyond our corporate power or is illegal or would result in the violation of our Memorandum of Association or Bye-Laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. Our Bye-Laws provide that shareholders waive all claims or rights of action that they might have, individually or in the right of the Company, against any director or officer for any action or failure to act in the performance of such director's or officer's duties, except such waiver shall not extend to claims or rights of action that arise out of any fraud or dishonesty of such director or officer. Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court generally has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

Indemnification of Directors and Officers. Under Bermuda law we may and under our Bye-Laws we will indemnify our directors, officers, any other person appointed to a committee of the board of directors and certain other persons identified in the Bye-Laws (and their respective heirs, executors or administrators) against all actions, costs, charges, losses, damages and expenses incurred or sustained by such person by reason of any act done, concurred in or omitted in the execution of his/her duties or supposed duties; provided that such indemnification shall not extend to any matter involving any fraud or dishonesty on the part of such director, officer or other person. Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees),

judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (i) such director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (ii) with respect to any criminal action or proceeding, such director or officer had no reasonable cause to believe his conduct was unlawful. Under our Bye-Laws, we and each of our shareholders agree to waive any claim or right of action, other than those involving fraud or dishonesty, against any of our officers or directors or others identified in our Bye-Laws.

Inspection of Corporate Records. Members of the general public have the right to inspect our public documents available at the office of the Registrar of Companies in Bermuda and our registered office in Bermuda, which will include our memorandum of association (including its objects and powers) and any alteration to our memorandum of association and documents relating to any increase or reduction of authorized capital. Our shareholders have the additional right to inspect our Bye-Laws, minutes of general meetings and audited annual financial statements, which must be presented to the annual general meeting of shareholders. The register of our shareholders is also open to inspection by shareholders without charge, and to members of the public for a fee. We are required to maintain our share register in Bermuda but, after our shares are listed on the New York Stock Exchange and giving the required notice to the Bermuda Registrar of Companies, we may establish a branch register outside of Bermuda. We are required to keep at our registered office a register of our directors and officers (containing that information required under Bermuda law) which is open for inspection by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records. Delaware law permits any shareholder to inspect or obtain copies of a corporation's shareholder list and its other books and records for any purpose reasonably related to such person's interest as a shareholder.

Shareholder Proposals. Under Bermuda law, the Companies Act provides that shareholders may, as set forth below and at their own expense (unless a company otherwise resolves), require a company to give notice of any resolution that the shareholders can properly propose at the next annual general meeting and/or to circulate a statement prepared by the requesting shareholders in respect of any matter referred to in a proposed resolution or any business to be conducted at a general meeting. The number of shareholders necessary for such a requisition is either that number of shareholders representing at least 5% of the total voting rights of all shareholders having a right to vote at the meeting to which the requisition relates or not less than 100 shareholders. Our Bye-Laws also include advance-notice provisions regarding shareholder proposals and nominations. Delaware law does not include a provision restricting the manner in which nominations for directors may be made by shareholders or the manner in which business may be brought before a meeting.

Calling of Special Shareholders' Meetings. Under our Bye-Laws, a special general meeting may be called by our President or by our Chairman or any director and the secretary of the Company or our board of directors. Under Bermuda law, a special meeting may also be called by the shareholders when requisitioned by the holders of at least 10% of the paid-up voting share capital of the Company as provided by the Companies Act. Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bylaws to call a special meeting of shareholders.

Approval of Corporate Matters by Written Consent. Under Bermuda law, the Companies Act provides that shareholders may take action by written consent with 100% shareholders consent required. Delaware law permits shareholders to take action by the consent in writing by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting of shareholders at which all shares entitled to vote thereon were present and voted.

Amendment of Memorandum of Association. Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. An amendment to the memorandum of association that alters a company's business objects may require approval of the Bermuda Minister of Finance, who may grant or withhold approval at his or her discretion.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of a company's issued share capital have the right to apply to the Bermuda courts for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An application for an annulment of an amendment of the memorandum of association must be made within 21 days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their designees as such holders may appoint in writing for such purpose. No application may be made by the shareholders voting in favor of the amendment.

Under Delaware law, amendment of the certificate of incorporation, which is the equivalent of a memorandum of association, of a company must be made by a resolution of the board of directors setting forth the amendment, declaring its advisability, and either calling a special meeting of the shareholders entitled to vote or directing that the amendment proposed be considered at the next annual meeting of the shareholders. Delaware law requires that, unless a different percentage is provided for in the certificate of incorporation, a majority of the outstanding shares entitled to vote thereon is required to approve the amendment of the certificate of incorporation at the shareholders meeting. If the amendment would alter the number of authorized shares or otherwise adversely affect the rights or preference of any class of a company's stock, Delaware law provides that the holders of the outstanding shares of such affected class should be entitled to vote as a class upon the proposed amendment, regardless of whether such holders are entitled to vote by the certificate of incorporation. However, the number of authorized shares of any class may be increased or decreased, to the extent not falling below the number of shares then outstanding, by the affirmative vote of the holders of a majority of the stock entitled to vote, if so provided in the company's certificate of incorporation or any amendment that created such class or was adopted prior to the issuance of such class or that was authorized by the affirmative vote of the holders of a majority of such class of stock.

Amendment of Bye-Laws. Consistent with the Companies Act, the Company's Bye-Laws provide that the Bye-Laws may only be rescinded, altered or amended upon approval by a resolution of our board of directors and by a resolution of our shareholders.

Under Delaware law, holders of a majority of the voting power of a corporation and, if so provided in the certificate of incorporation, the directors of the corporation, have the power to adopt, amend and repeal the bylaws of a corporation.

Staggered Board of Directors. Under Bermuda law, the Companies Act does not contain statutory provisions specifically mandating staggered board arrangements for a Bermuda exempted company. Such provisions, however, may validly be provided for in the Bye-Laws governing the affairs of such a company. Delaware law permits corporations to have a staggered board of directors.

Listing

Our common shares have been approved for listing on the New York Stock Exchange under the trading symbol "AGO."

Transfer Agent and Registrar

The transfer agent and registrar for the common shares will be Mellon Investor Services LLC, whose principal executive office is located at Overpeck Centre, 85 Challenger Road, Ridgefield Park, New Jersey 07660.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the offering we will have a total of 75,937,417 common shares outstanding. Up to 2,750,000 of the common shares for sale in this offering are reserved for purchase by persons designated by us through a directed share program. All of the 49,000,000 shares (56,350,000 shares if the underwriters exercise their option to purchase additional common shares in full) sold in the offering will be freely tradable without restriction or further registration under the Securities Act by persons other than our "affiliates." Under the Securities Act, an "affiliate" of a company is a person that directly or indirectly controls, is controlled by or is under common control with that company.

The remaining 26,000,000 common shares outstanding (18,650,000 shares if the underwriters exercise their option to purchase additional common shares in full) and beneficially owned by ACE will be "restricted securities" within the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemptions contained in Rule 144.

We, our directors and executive officers and ACE have agreed, subject to certain exceptions, not to offer to sell, sell or otherwise dispose of, directly or indirectly, any of our common shares or securities convertible into or exchangeable for common shares, for a period of 180 days from the date of this prospectus, without the prior written consent of Banc of America Securities LLC and Goldman, Sachs & Co. on behalf of the underwriters.

We may, however, grant options to purchase common shares under our existing benefit plans as long as the holder of such common shares agrees in writing to be bound by the obligations and restrictions of the lock-up agreement.

In general, under Rule 144, a person (or persons whose shares are aggregated), including any person who may be deemed our affiliate, is entitled to sell within any three-month period, a number of restricted securities that does not exceed the greater of 1% of the then outstanding common shares and the average weekly trading volume on the NYSE during the four calendar weeks preceding each such sale, provided that at least one year has elapsed since such shares were acquired from us or any affiliate of ours and certain manner of sale, notice requirements and requirements as to availability of current public information about us are satisfied. Any person who is deemed to be our affiliate must comply with the provisions of Rule 144 (other than the one-year holding period requirement) in order to sell common shares which are not restricted securities (such as shares acquired by affiliates either in the offering or through purchases in the open market following the offering). In addition, under Rule 144(k), a person who is not our affiliate, and who has not been our affiliate at any time during the 90 days preceding any sale, is entitled to sell such shares without regard to the foregoing limitations, provided that at least two years have elapsed since the shares were acquired from us or any affiliate of ours.

Following the consummation of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register common shares issued or reserved for issuance under the 2004 Long-Term Incentive Plan and certain other outstanding equity awards and grants. Any such Form S-8 registration statement will automatically become effective upon filing. Accordingly, shares registered under such registration statement will be available for sale in the open market, unless such shares are subject to vesting restrictions with us or the lock-up restrictions described above. We expect that the registration statement on Form S-8 will cover 7,500,000 shares and options.

Pursuant to a registration rights agreement, at any time beginning 180 days after the effective date of the registration statement relating to this offering, subject to exceptions, ACE may request that we file a registration statement under the Securities Act covering its shares. ACE may request two demand registrations. In addition, at any time that we are eligible to use the SEC's short-form registration statement Form S-3 (or any successor form), ACE may request that we register its shares for resale from time to time on a delayed or continuous basis. ACE also has certain "piggyback" registration rights with respect to our common shares. Accordingly, if we propose to register any of our securities, either for our own account or for the account of other shareholders, with certain exceptions, we are required to notify ACE and to include in such registration all the common shares requested to be included by ACE, subject to rejection of such shares under certain circumstances by an underwriter. See "Relationship with ACE Registration Rights Agreement."

No prediction can be made as to the effect, if any, future sales of shares, or the availability of shares for future sales, will have on the market price of our common shares prevailing from time to time. The sale of substantial amounts of our common shares in the public market, or the perception that such sales could occur, could harm the prevailing market price of our common shares.

UNDERWRITING

Assured Guaranty, the selling shareholders and the underwriters named below have entered into an underwriting agreement with respect to the common shares being offered. Banc of America Securities LLC and Goldman, Sachs & Co. are the representatives of the underwriters. Subject to certain conditions, the selling shareholders have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, the number of common shares listed next to its name in the following table:

Underwriters	Number of Shares
Banc of America Securities LLC	
Goldman, Sachs & Co.	
Citigroup Global Markets Inc.	
Deutsche Bank Securities Inc.	
J.P. Morgan Securities Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
UBS Securities LLC	
Wachovia Capital Markets, LLC	
William Blair & Company, L.L.C.	
Keefe, Bruyette & Woods, Inc.	
ABN AMRO Incorporated	
Bear Stearns & Co., Inc.	
Blaylock & Partners, L.P.	
Credit Lyonnais Securities (USA) Inc.	
Fox-Pitt, Kelton Inc.	
HSBC Securities (USA) Inc.	
Lazard Frères & Co., LLC	
Legg Mason Wood Walker, Incorporated	
RBC Dominion Securities Corporation	
Sandler O'Neill & Partners, L.P.	
Total	49,000,000

The underwriting agreement is subject to a number of terms and conditions and provides that the underwriters must buy all of the shares if they buy any of them. The underwriters will sell the shares to the public when and if the underwriters buy the shares from the selling shareholders.

Common shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any common shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ _____ per share from the initial public offering price. Any such securities dealers may resell any common shares purchased from the underwriters to certain other brokers or dealers at a discount of up to \$ _____ per share from the initial public offering price. If all the common shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

Option to Purchase Additional Shares. If the underwriters sell more common shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 7,350,000 common shares from the selling shareholders to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase common shares in approximately the same proportion as set forth in the table above.

Discounts and Commissions. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by the selling shareholders. Such amounts are

shown assuming both no exercise and full exercise of the underwriters' option to purchase additional common shares.

Paid by the selling shareholders

	<u>No Exercise</u>	<u>Full Exercise</u>
Per share	\$	\$
Total	\$	\$

The selling shareholders estimate that their share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$.

Lock-Up Agreements. Assured Guaranty, its directors and officers and ACE (on its behalf and on behalf of its subsidiaries) have agreed with the underwriters not to dispose of or hedge any of Assured Guaranty's common shares or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans. See "Shares Eligible for Future Sale" for a discussion of certain transfer restrictions.

IPO Pricing. Prior to the offering, there has been no public market for the common shares. The initial public offering price has been negotiated among the selling shareholders, Assured Guaranty and the representatives. Among the factors to be considered in determining the initial public offering price of the common shares, in addition to prevailing market conditions, are:

Assured Guaranty's historical performance;

estimates of the business potential and earnings prospects of Assured Guaranty;

an assessment of Assured Guaranty's management;

consideration of the above factors in relation to market valuation of companies in related businesses; and

other factors deemed relevant.

Listing. Our common shares have been approved for listing on the New York Stock Exchange under the symbol "AGO." In order to meet one of the requirements for listing the common shares on the NYSE, the underwriters have undertaken to sell lots of 100 shares or more to a minimum of 2,000 beneficial owners.

Stabilization. In connection with the offering, the underwriters may purchase and sell common shares in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of common shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from Assured Guaranty in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional common shares or purchasing common shares in the open market. In determining the source of common shares to close out the covered short position, the underwriters will consider, among other things, the price of common shares available for purchase in the open market as compared to the price at which they may purchase additional common shares pursuant to the option granted them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing common shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common shares made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased common shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of Assured Guaranty's common shares, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the common shares. As a result, the price of the common shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

Discretionary Sales. The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

Directed Share Program. At our request, the underwriters have reserved for sale to our directors, officers and employees, certain directors and officers of ACE and some other individuals who may be designated by ACE at the initial public offering price up to 2,750,000 of the common shares being offered by this prospectus. We have requested that approximately \$8.3 million of these reserved common shares, valued at the initial public offering price, be directed to the trust that we are sponsoring to purchase our common shares to replace unvested restricted ACE ordinary shares that will be forfeited by certain individuals who remain employed by us after the offering. This trust arrangement is described in more detail under "Management Transition from ACE to Assured Guaranty Plans." The common shares reserved under the directed share program will be allocated first to this trust (which is assured of receiving the full amount of common shares it can purchase) and then the remainder to other eligible persons who elect to participate in the program. The trust will purchase the reserved common shares allocated to it. However, we do not know if any other eligible participants will choose to purchase any additional portion of the reserved shares. Any purchases of the reserved shares will reduce the number of shares available to the general public. If all of these reserved shares are not purchased, the underwriters will offer the remainder to the general public on the same terms as the other shares offered by this prospectus.

Indemnification. The selling shareholders and Assured Guaranty have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act. If the selling shareholders and Assured Guaranty are unable to provide this indemnification, they will contribute to payments the underwriters may be required to make in respect of those liabilities.

Online Offering. A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters participating in this offering. Other than the prospectus in electronic format, the information on any such web site, or accessible through any such web site, is not part of this prospectus. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

Selling Restrictions. Each underwriter has represented, warranted and agreed that: (i) it has not offered or sold and, prior to the expiry of a period of six months from the date the offering is complete, will not offer or sell any shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement

to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

No syndicate member has offered or sold, or will offer or sell, in Hong Kong, by means of any document, any shares other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or under circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, nor has it issued or had in its possession for the purpose of issue, nor will it issue or have in its possession for the purpose of issue, any invitation or advertisement relating to the shares in Hong Kong (except as permitted by the securities laws of Hong Kong) other than with respect to shares which are intended to be disposed of to persons outside Hong Kong or to be disposed of only to persons whose business involves the acquisition, disposal, or holding of securities (whether as principal or as agent).

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the common shares may not be circulated or distributed, nor may the common shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the common shares to the public in Singapore.

Each underwriter has acknowledged and agreed that the securities have not been registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Common shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003 of Bermuda, which regulates the sale of securities in Bermuda. In addition, the Bermuda Monetary Authority must approve all issuances and transfers of shares of a Bermuda exempted company. The Bermuda Monetary Authority has issued its permission for the issue and free transferability of the common shares being offered pursuant to this prospectus, as long as the common shares are listed on the New York Stock Exchange, to and among persons who are non-residents of Bermuda for exchange controls purposes. In addition, we will deliver to and file a copy of this prospectus with the Registrar of Companies in Bermuda in accordance with Bermuda law. The Bermuda Monetary Authority, the Minister of Finance of Bermuda and the Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus.

Affiliates. Each of the representatives and certain of the other underwriters and, in each case, their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for Assured Guaranty and ACE, for which they received or will receive customary fees and commissions. In addition, Bank of America, N.A., an affiliate of Banc of America Securities LLC and Citibank, N.A., an affiliate of Citigroup Global Markets, Inc., are lenders under Assured Guaranty Corp.'s \$140 million revolving credit facility. Bank of America, N.A. has a \$16 million commitment under this facility and Citibank, N.A. has a \$20 million

commitment. There are currently no amounts outstanding under this facility. In addition, Deutsche Bank AG, an affiliate of Deutsche Bank Securities Inc., is a lender under a non-recourse credit facility for Assured Guaranty Corp., for which Deutsche Banc Alex Brown, Inc. serves as arranger. No amounts are outstanding under this facility. Also, Assured Guaranty Corp. maintains a letter of credit for approximately \$10 million with JP Morgan Chase, an affiliate of JP Morgan Securities Inc. We believe that the fees and commissions payable for participation in these credit facilities and letters of credit are customary for borrowers with similar credit profiles and in the same industry as Assured Guaranty Corp. No proceeds from this offering will be used to pay any amounts under these facilities.

LEGAL MATTERS

Certain matters as to U.S. law in connection with this offering will be passed upon for us by Mayer, Brown, Rowe & Maw LLP, Chicago, Illinois. The validity of the issuance of common shares under Bermuda law will be passed upon for us by Conyers Dill & Pearman, Hamilton, Bermuda. Certain legal matters in connection with this offering will be passed upon for the underwriters by LeBoeuf, Lamb, Greene & MacRae, L.L.P., a limited liability partnership including professional corporations, New York, New York. LeBoeuf, Lamb, Greene & MacRae, L.L.P. has in the past performed, and continues to perform, services for us.

EXPERTS

The combined financial statements of Assured Guaranty Ltd. and its subsidiaries included in this prospectus and the related financial statement schedules included elsewhere in the registration statement of which this prospectus forms a part at December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their reports appearing in this prospectus and elsewhere in the registration statement. The balance sheet of Assured Guaranty Ltd. included in this prospectus as of August 21, 2003 has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing in the prospectus. These financial statements are included in reliance upon the reports of such firm given upon their authority as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC, a registration statement on Form S-1 under the Securities Act with respect to the common shares offered in this prospectus. This prospectus, filed as part of the registration statement, does not contain all of the information set forth in the registration statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. For further information about us and our common shares, we refer you to the registration statement and to its exhibits and schedules. Statements in this prospectus about the contents of any contract, agreement or other document are not necessarily complete and, in each instance, we refer you to the copy of such contract, agreement or document filed as an exhibit to the registration statement, with each such statement being qualified in all respects by reference to the document to which it refers. Anyone may inspect the registration statement and its exhibits and schedules without charge at the public reference facilities the SEC maintains at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain copies of all or any part of these materials from the SEC upon the payment of certain fees prescribed by the SEC. You may obtain further information about the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect these reports and other information without charge at a web site maintained by the SEC. The address of this site is <http://www.sec.gov>.

Upon completion of this offering, we will become subject to the informational requirements of the Securities Exchange Act of 1934 and will be required to file reports, proxy statements and other information with the SEC. You will be able to inspect and copy these reports, proxy statements and other information at the public reference facilities maintained by the SEC at the address noted above. You also will be able to obtain copies of this material from the Public Reference Room of the SEC as described above, or inspect them without charge at the SEC's web site. We intend to furnish our shareholders with annual reports containing combined financial statements audited by an independent accounting firm.

**ENFORCEABILITY OF CIVIL LIABILITIES UNDER UNITED STATES
FEDERAL SECURITIES LAWS AND OTHER MATTERS**

We are organized under the laws of Bermuda. In addition, some of our directors and officers reside outside the United States, and a portion of their assets and our assets are or may be located in jurisdictions outside the United States. Therefore, it may be difficult for investors to effect service of process within the United States upon Assured Guaranty or its non-U.S. directors and officers or to recover against us, or our non-U.S. directors and officers on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law. However, we may be served with process in the United States with respect to actions against us arising out of or in connection with violations of U.S. federal securities laws relating to offers and sales of common shares made hereby by serving CT Corporation System, our U.S. agent, irrevocably appointed for that purpose.

We have been advised by Conyers Dill & Pearman, our special Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the experts named herein, predicated upon the civil liability provisions of the U.S. federal securities laws or original actions brought in Bermuda against us or such persons predicated solely upon U.S. federal securities laws. A Bermuda court would likely enforce a final and conclusive judgment in personam, which means a judgment against a specific person rather than against specific property, obtained in a court in the United States under which a sum of money is payable, other than a sum of money payable in respect of multiple damages, taxes or other charges of a similar nature or in respect of a fine or other penalty, provided that the Bermuda court was satisfied that each of the following conditions were met:

the U.S. court had proper jurisdiction over the parties subject to such judgment;

the U.S. court did not contravene the rules of natural justice of Bermuda;

the judgment of the U.S. court was not obtained by fraud;

the enforcement of the judgment would not be contrary to the public policy of Bermuda;

no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of Bermuda; and

there is due compliance with the correct procedures under the laws of Bermuda.

Further, we have been advised by Conyers Dill & Pearman that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments.

We obtained consent for the issue and transfer of the common shares to and between non-residents of Bermuda for exchange control purposes from the Bermuda Monetary Authority as required by the Exchange Control Act 1972 of Bermuda and related regulations, subject to the condition that the common shares shall be listed on an appointed stock exchange (including the New York Stock Exchange). In addition, we will deliver a copy of this prospectus to the Registrar of Companies in Bermuda for filing pursuant to the Companies Act. However, the Bermuda Monetary Authority, the Ministry of Finance and Registrar of Companies in Bermuda accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus.

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ASSURED GUARANTY LTD.**

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Report of Independent Auditors

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

In our opinion, the accompanying balance sheet presents fairly, in all material respects, the financial position of Assured Guaranty Ltd. as of August 21, 2003 (date of incorporation) in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, assessing the accounting principles used and significant estimates made by management, and evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
December 19, 2003

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Assured Guaranty Ltd.

Balance Sheet as of August 21, 2003

(Date of Incorporation)

Assets:

Receivable from affiliate	\$	12,000
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Total assets	\$	12,000
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Shareholder's Equity:

Common shares (\$1.00 par value; 12,000 shares authorized, issued and outstanding	\$	12,000
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Total shareholder's equity	\$	12,000
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The accompanying notes are an integral part of this balance sheet.

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Assured Guaranty Ltd.

Notes to the Assured Guaranty Ltd. Balance Sheet

1. Organization

Assured Guaranty Ltd. ("Assured Guaranty", formerly AGC Holdings Ltd.) was incorporated on August 21, 2003 and was capitalized on August 21, 2003 under the laws of Bermuda. In connection with its formation, Assured Guaranty issued 12,000 shares at a \$1.00 par value to ACE Limited ("ACE").

Assured Guaranty was formed for the sole purpose of becoming a holding company for ACE subsidiaries conducting ACE's financial and mortgage guaranty businesses, which are referred to as the "transferred businesses," in connection with this initial public offering of Assured Guaranty.

Assured Guaranty will operate through wholly-owned subsidiaries including Assured Guaranty Re International Ltd. ("AGRI") (formerly, ACE Capital Re International Ltd.), Assured Guaranty US Holdings Inc. and Assured Guaranty Finance Overseas Ltd. (formerly ACE Finance Overseas Ltd.).

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Consolidation

After the effective date of this offering and completion of the "Formation Transactions", which are described below, Assured Guaranty will prepare its consolidated financial statements with those of its subsidiaries and will present them on a consolidated basis. Transactions between Assured Guaranty and its subsidiaries or among its subsidiaries will be eliminated in consolidation.

Receivable from affiliate

This amount represents the initial capitalization of Assured Guaranty.

3. Formation Transactions and Initial Public Offering

Assured Guaranty was incorporated in Bermuda on August 21, 2003 for the sole purpose of becoming a holding company for the transferred businesses. As part of the overall plan of formation of Assured Guaranty, the following "Formation Transactions" will occur:

ACE, through a U.S. subsidiary, will form Assured Guaranty US Holdings Inc. as a Delaware holding company to hold the shares of Assured Guaranty Corp. and Assured Guaranty Financial Products Inc.

ACE's U.S. subsidiary will transfer the shares of Assured Guaranty Corp. and Assured Guaranty Financial Products to Assured Guaranty US Holdings in exchange for stock of Assured Guaranty US Holding and a \$200 million promissory note.

Assured Guaranty Re Overseas Ltd. will transfer 100% of the stock ownership in ACE Capital Title Reinsurance Company ("ACTR") to ACE or one of its subsidiaries in exchange for a \$39.5 million promissory note, which will be repayable upon completion of this offering.

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Subsequent to entering into the underwriting agreement with respect to this offering, ACE will cause:

its U.S. subsidiary to transfer 100% of the stock ownership in Assured Guaranty US Holdings and Assured Guaranty Finance Overseas to Assured Guaranty in exchange for an aggregate of [] common shares of Assured Guaranty and a \$1 million promissory note of Assured Guaranty; and

a Bermuda subsidiary to transfer 100% of the stock of AGRI to Assured Guaranty for [] common shares of Assured Guaranty and a \$1 million promissory note of Assured Guaranty; and

Each of our operating subsidiaries conducted business under names including "ACE," "AGR" and/or "Capital Re." As part of the Formation Transactions, we are changing the names of each of these subsidiaries to names using "Assured Guaranty" or derivations thereof. All of these name changes may not be completed prior to the completion of the initial public offering.

4. Related Party Transactions

ACE and its subsidiaries will also enter into a number of transactions with Assured Guaranty subsidiaries in order to reinsure or otherwise assume certain risks related to the businesses reported in Assured Guaranty's other segment. These transactions will not have a material impact on Assured Guaranty's financial position, results of operations or liquidity. Assured Guaranty will also enter into a number of other agreements with ACE and its subsidiaries that will govern certain aspects of Assured Guaranty's relationship with ACE after this offering, including services agreements under which ACE and its subsidiaries will provide certain services to Assured Guaranty for a period of time after this offering.

Upon completion of this offering, any unvested options to purchase ACE ordinary shares held by our officers or employees will immediately vest and any unvested restricted ACE ordinary shares will be forfeited. Our officers and employees will have 90 days to exercise any vested options to acquire ACE ordinary shares. The acceleration of vesting of options to purchase ordinary shares will result in a pre-tax charge of approximately \$3.1 million. We have agreed to deposit with an independent trustee an amount of cash equal to the value of the restricted ACE ordinary shares forfeited by all of our officers and employees. Based upon an assumed price of \$42.00 per ACE ordinary share, the value of the restricted ACE ordinary shares to be forfeited by all of our officers and employees is approximately \$8.3 million. Assured Guaranty will incur a pre-tax charge of approximately \$8.3 million for the amount of cash contributed to the trust.

5. Taxation

Under current Bermuda law, the Company and its Bermuda subsidiaries will not be required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance of Bermuda, that in the event of any such taxes being imposed, the Company will be exempt from taxation until 2016. There will be no withholding taxes imposed on dividend distributions from Bermuda.

The Company's U.S. subsidiaries are subject to income taxes imposed by U.S. authorities and file U.S. tax returns.

6. Employee Benefit Plans and Stock Option Plans

The Company intends to offer benefit plans and stock option plans to its employees as a form of compensation.

7. Segment Information

Assured Guaranty will have the following four reportable 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 includes credit support for credit default swaps; (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; (4) other, which includes several lines of business in which the Company is no longer active, including trade credit reinsurance, title reinsurance, auto residual value reinsurance and the credit protection of equity layers of CDOs, as well as life, accident and health reinsurance.

These segments are consistent with the manner in which Assured Guaranty's management intends to manage these businesses.

8. Statutory Requirements and Dividend Restrictions

These financial statements are prepared on a GAAP basis, which differs in certain respects from accounting practices prescribed or permitted by the insurance regulatory authorities. Assured Guaranty's insurance subsidiaries will be subject to certain limitations on dividends that may be paid to Assured Guaranty based on solvency or other regulatory requirements in the applicable jurisdiction. Such limitations generally require that dividends be paid from surplus and may require regulatory approval prior to payment.

Report of Independent Auditors

To the Board of Directors and Shareholder of Assured Guaranty Ltd.

In our opinion, the accompanying combined balance sheets and the related combined statements of operations and comprehensive income, of shareholder's equity and of cash flows present fairly, in all material respects, the financial position of Assured Guaranty Ltd. and its subsidiaries (collectively referred to as "the Company") as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 and Note 5 to the combined financial statements, the Company changed its method of accounting for derivatives and goodwill in 2001 and 2002, respectively.

PricewaterhouseCoopers LLP
New York, New York
February 25, 2004

Assured Guaranty Ltd.

Combined Balance Sheets

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

	As of December 31,	
	2003	2002
Assets		
Fixed maturity securities, at fair value (amortized cost: \$1,937,743 in 2003 and: \$1,785,616 in 2002)	\$ 2,052,217	\$ 1,908,061
Short-term investments, at cost which approximates fair value	137,517	144,346
Total investments	2,189,734	2,052,407
Cash and cash equivalents	32,365	9,445
Accrued investment income	23,758	22,030
Deferred acquisition costs	178,673	157,299
Prepaid reinsurance premiums	10,974	179,497
Reinsurance recoverable on ceded losses	122,124	100,826
Due from affiliate	115,000	
Premiums receivable	63,997	61,280
Value of reinsurance business assumed	14,226	20,322
Goodwill	87,062	87,062
Other assets	19,954	29,700
Total assets	\$ 2,857,867	\$ 2,719,868
Liabilities and shareholder's equity		
Liabilities		
Unearned premium reserves	\$ 625,429	\$ 613,341
Reserve for losses and loss adjustment expenses	522,593	458,831
Profit commissions payable	71,237	95,832
Deferred income taxes	55,637	42,999
Unrealized losses on derivative financial instruments	8,558	107,007
Funds held by Company under reinsurance contracts	9,635	27,073
Long-term debt	75,000	75,000
Other liabilities	52,154	42,549
Total liabilities	1,420,243	1,462,632
Commitments and contingencies (Note 15)		
Shareholder's equity		
Common stock	16,403	16,403
Additional paid-in capital	955,490	946,092
Unearned stock grant compensation	(5,479)	(4,718)
Retained earnings	390,025	210,503
Accumulated other comprehensive income	81,185	88,956
Total shareholder's equity	1,437,624	1,257,236
Total liabilities and shareholder's equity	\$ 2,857,867	\$ 2,719,868

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

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Assured Guaranty Ltd.

Combined Statements of Operations and Comprehensive Income

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

	For the years ended December 31,		
	2003	2002	2001
Revenues			
Gross written premiums	\$ 349,236	\$ 417,158	\$ 442,850
Ceded premiums	142,236	(64,699)	(236,288)
Net written premiums	491,472	352,459	206,562
(Increase)/decrease in net unearned premium reserves	(180,611)	(105,069)	86,959
Net earned premiums	310,861	247,390	293,521
Net investment income	96,274	97,240	99,520
Net realized investment gains	5,483	7,863	13,140
Unrealized gains (losses) on derivative financial instruments	98,449	(54,158)	(16,255)
Other income	1,219	3,623	2,930
Total revenues	512,286	301,958	392,856
Expenses			
Loss and loss adjustment expenses	144,610	120,260	177,542
Profit commissions expense	9,835	8,543	9,007
Acquisition costs	64,900	48,400	51,100
Other operating expenses	41,026	31,016	29,771
Goodwill amortization			3,785
Interest expense	5,738	10,579	11,548
Total expenses	266,109	218,798	282,753
Income before provision for income taxes	246,177	83,160	110,103
Provision/(benefit) for income taxes			
Current	18,873	17,858	6,197
Deferred	12,782	(7,267)	15,989
Total provision for income taxes	31,655	10,591	22,186
Net income before cumulative effect of new accounting standard	214,522	72,569	87,917
Cumulative effect of new accounting standard, net of taxes of (\$12,277)			(24,104)
Net income	214,522	72,569	63,813
Other comprehensive income, net of taxes			
Unrealized holding gains on fixed maturity securities arising during the year	(3,922)	50,461	10,539
Reclassification adjustment for realized (gains)/losses included in net income	(3,849)	(4,829)	(9,557)
Change in net unrealized gains/(losses) on fixed maturity securities	(7,771)	45,632	982

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For the years ended December 31,

Comprehensive income	\$	206,751	\$	118,201
			\$	64,795
Earnings per share:				
Basic	\$	2.86	\$	0.97
Diluted	\$	2.86	\$	0.97

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

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Assured Guaranty Ltd.

Combined Statements of Shareholder's Equity

For the years ended December 31, 2003, 2002, and 2001
(in thousands of U.S. dollars)

	Common Stock	Additional Paid-in capital	Unearned Stock Grant Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholder's Equity
Balance, December 31, 2000	\$ 3,878	\$ 861,069	\$ (366)	\$ 87,621	\$ 42,342	\$ 994,544
Net income				63,813		63,813
Dividends				(5,500)		(5,500)
Capital contribution	25	8,150				8,175
Change in par value	12,500	(12,500)				
Tax benefit for options exercised		1,629				1,629
Unrealized gain on fixed maturity securities, net of tax of (\$3,034)					982	982
Unearned stock grant compensation, net			(2,024)			(2,024)
Balance, December 31, 2001	\$ 16,403	\$ 858,348	\$ (2,390)	\$ 145,934	\$ 43,324	\$ 1,061,619
Net income				72,569		72,569
Dividends				(8,000)		(8,000)
Capital contribution		84,212				84,212
Tax benefit for options exercised		3,532				3,532
Unrealized gain on fixed maturity securities, net of tax of \$20,383					45,632	45,632
Unearned stock grant compensation, net			(2,328)			(2,328)
Balance, December 31, 2002	\$ 16,403	\$ 946,092	\$ (4,718)	\$ 210,503	\$ 88,956	\$ 1,257,236
Net income				214,522		214,522
Dividends				(35,000)		(35,000)
Capital contribution		3,728				3,728
Tax benefit for options exercised		5,670				5,670
Unrealized loss on fixed maturity securities, net of tax of (\$144)					(7,771)	(7,771)
Unearned stock grant compensation, net			(761)			(761)
Balance, December 31, 2003	\$ 16,403	\$ 955,490	\$ (5,479)	\$ 390,025	\$ 81,185	\$ 1,437,624

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

Assured Guaranty Ltd.

Combined Statements of Cash Flows

(in thousands of U.S. dollars)

	For the years ended December 31,		
	2003	2002	2001
Operating activities			
Net income	\$ 214,522	\$ 72,569	\$ 63,813
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash interest and operating expenses(1)	3,728	7,212	7,840
Net amortization of premium/(discount) on fixed maturity securities	9,119	3,728	(3,636)
Goodwill amortization			3,785
Provision/(benefit) for deferred income taxes	12,782	(7,267)	15,989
Net realized investment gains	(5,483)	(7,863)	(13,140)
Cumulative effect of adopting a new accounting standard, net of taxes			24,104
Change in unrealized losses on derivative financial instruments	(98,449)	54,158	16,255
Change in deferred acquisition costs	(21,374)	(3,102)	(3,805)
Change in accrued investment income	(1,728)	(960)	(1,082)
Change in premiums receivable	(3,538)	(21,099)	(18,801)
Change in due from affiliate	(115,000)		
Change in prepaid reinsurance premiums	168,523	(7,981)	(142,730)
Change in unearned premium reserves	12,088	113,050	55,669
Change in reserve for losses and loss adjustment expenses, net	40,424	26,573	175,633
Change in profit commissions payable	(24,595)	6,868	6,901
Change in value of reinsurance business assumed	6,096	6,097	(26,419)
Change in funds held by Company under reinsurance contracts	(17,438)	27,073	
Other	20,353	8,671	(383)
Net cash flows provided by operating activities	200,030	277,727	159,993
Investing activities			
Fixed maturity securities:			
Purchases	(902,935)	(1,481,744)	(1,371,380)
Sales	619,587	965,466	1,160,414
Maturities	127,532	284,899	21,929
(Purchases)/sales of short-term investments, net	6,829	(44,337)	47,640
Other	3,690	8,712	(15,803)
Net cash used in investing activities	(145,297)	(267,004)	(157,200)
Financing activities			
Capital contributions		2,000	310
Dividends paid	(35,000)	(8,000)	(5,500)
Net cash provided by financing activities	(35,000)	(6,000)	(5,190)

	For the years ended December 31,		
Increase/(decrease) in cash and cash equivalents	19,733	4,723	(2,397)
Effect of exchange rate changes	3,187	537	(58)
Cash and cash equivalents at beginning of period	9,445	4,185	6,640
Cash and cash equivalents at end of period	\$ 32,365	\$ 9,445	\$ 4,185
Supplementary information			
Taxes paid	15,091	11,676	7,250
Interest paid	5,738	10,579	11,548

- (1) Operating activities include various non-cash items. These non-cash items are described in Note 14 "Related Party Transactions Non-Cash Capital Contributions."

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

Assured Guaranty Ltd.

Notes to Combined Financial Statements

1. Business and Organization

On December 2, 2003, ACE Limited ("ACE") announced its intention to establish a separate stand-alone entity including its financial guaranty insurance, reinsurance, mortgage and related businesses and to sell a majority interest in these businesses to the public through an initial public offering. The stand-alone entity would combine ownership of the financial guaranty insurance, reinsurance and related businesses under Assured Guaranty Ltd. ("Assured Guaranty", formerly AGC Holdings Ltd.), a newly incorporated Bermuda-based holding company. These businesses are comprised of Assured Guaranty Corp. (formerly ACE Guaranty Corp.) and its wholly-owned subsidiaries, Assured Guaranty Re International Ltd. ("AGRI", formerly ACE Capital Re International Ltd.) and its wholly-owned subsidiaries, Assured Guaranty Financial Products Inc. (formerly AGR Financial Products Inc.) and Assured Guaranty Finance Overseas Ltd. (formerly ACE Finance Overseas Ltd.) (collectively "combined entities"). ACE acquired most of the aforementioned businesses on December 30, 1999 as part of its acquisition of Capital Re.

Assured Guaranty Corp., a Maryland domiciled insurance company and its wholly owned subsidiary, Assured Guaranty Risk Assurance Company (formerly ACE Risk Assurance Company), provide insurance and reinsurance of investment grade financial guaranty exposures, including municipal and non-municipal insurance and reinsurance, credit derivatives transactions as well as trade credit and related reinsurance.

AGRI indirectly owns, through Barbados and United States holding companies, the entire share capital of a Bermuda reinsurer, Assured Guaranty Re Overseas Ltd. ("AGRO", formerly ACE Capital Re Overseas Ltd.). AGRO, in turn, owns Assured Guaranty Mortgage Insurance Company ("Assured Guaranty Mortgage," formerly ACE Capital Mortgage Reinsurance Company) and ACE Capital Title Reinsurance Company ("ACTR"), which are monoline insurance companies domiciled in the United States. AGRO also owns Assured Guaranty Inc. (formerly, ACE Capital Re Inc.), a New York reinsurance intermediary.

AGRI and AGRO underwrite highly structured financial guaranty and structured credit, residential mortgage and title reinsurance. During 2002, AGRO transferred its life, accident and health book of business to another ACE affiliate. AGRI and AGRO write business as direct reinsurers of third-party primary insurers and as retrocessionaires of certain affiliated companies and also provide credit protection through single-name and portfolio credit default swaps ("CDS"), where the counterparty is usually an investment bank.

Assured Guaranty Mortgage reinsures residential mortgage guaranty insurance obligations that originate primarily in the United States and United Kingdom. ACTR provides structured reinsurance to the title insurance industry.

Assured Guaranty Corp., AGRI and AGRO source business through a subsidiary, Assured Guaranty Finance Overseas Ltd., which is an Arranger based in the United Kingdom. An Arranger is an entity regulated by the Financial Services Authority which markets and sources derivative transactions.

These financial statements present the historical combined financial position, results of operations and cash flows of the entities that will comprise Assured Guaranty upon completion of the following "Formation Transactions":

ACE, through a U.S. subsidiary, will form Assured Guaranty US Holdings Inc. as a Delaware holding company to hold the shares of Assured Guaranty Corp. and Assured Guaranty Financial Products.

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ACE's U.S. subsidiary will transfer the shares of Assured Guaranty Corp. and Assured Guaranty Financial Products to Assured Guaranty US Holdings in exchange for common stock of Assured Guaranty US Holdings and a \$200 million promissory note.

AGRO will transfer 100% of the stock ownership in ACTR to ACE or one of its subsidiaries in exchange for a \$39.5 million promissory note which will be repayable upon completion of this offering.

Subsequent to entering into the underwriting agreement with respect to this offering, ACE will cause:

its U.S. subsidiary to transfer 100% of the stock ownership in Assured Guaranty US Holdings and Assured Guaranty Finance Overseas to Assured Guaranty in exchange for common shares of Assured Guaranty and a \$1 million promissory note of Assured Guaranty; and

a Bermuda subsidiary to transfer 100% of the stock of AGRI to Assured Guaranty in exchange for common shares of Assured Guaranty and a \$1 million promissory note of Assured Guaranty.

Upon completion of this offering, ACE and its subsidiaries will also enter into a number of transactions with Assured Guaranty subsidiaries in order to reinsure or otherwise assume certain risks related to the businesses reported in Assured Guaranty's other segment. These transactions will not have a material effect on Assured Guaranty's financial position, results of operations or liquidity.

Upon completion of this offering, any unvested options to purchase ACE ordinary shares held by our officers or employees will immediately vest and any unvested restricted ACE ordinary shares will be forfeited. Our officers and employees will have 90 days to exercise any vested options to acquire ACE ordinary shares. The acceleration of vesting of options to purchase ordinary shares will result in a pre-tax charge of approximately \$3.1 million. We have agreed to deposit with an independent trustee an amount of cash equal to the value of the restricted ACE ordinary shares forfeited by all of our officers and employees. Based upon an assumed price of \$42.00 per ACE ordinary share, the value of the restricted ACE ordinary shares to be forfeited by all of our officers and employees is approximately \$8.3 million. Assured Guaranty will incur a pre-tax charge of approximately \$8.3 million for the amount of cash contributed to the trust.

Assured Guaranty, through its wholly owned subsidiaries, Assured Guaranty Corp. and AGRI, will operate financial guaranty insurance, reinsurance and related businesses.

2. Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which 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.

The historical combined financial statements include the assets, liabilities, operating results and cash flows of Assured Guaranty and combined entities (the "Company") and have been prepared using the historical bases for assets and liabilities and the historical results of operations of the aforementioned combined entities. The historical combined financial statements also include certain long-term debt used to fund the Company's insurance operations and related interest expense. For all periods presented, certain expenses reflected in the financial statements include allocations of corporate

expenses incurred by ACE related to general and administrative services provided to the Company, including tax consulting and preparation services, internal audit services and liquidity facility costs. These expenses were allocated based on estimates of the cost incurred by ACE to provide these services to the Company. All intercompany accounts and transactions have been eliminated. Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

Management believes that the foregoing adjustments and allocations were made on a basis that is a reasonable reflection of the historical results of the Company. However, these results do not necessarily represent what the historical combined financial position, results of operations and cash flows of the Company would have been if the Company had been a separate and stand-alone entity during the periods presented.

Premium Revenue Recognition

Premiums are received either upfront or in installments. Upfront premiums are earned in proportion to the expiration of the amount at risk. Each installment premium is earned ratably over its installment period, generally one year or less. For insured bonds for which the par value outstanding is declining during the insurance period, upfront premium earnings are greater in the earlier periods thus matching revenue recognition with the underlying risk. 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 reserve represents the portion of premiums written that is applicable to the unexpired amount at risk of insured bonds.

Due to the customary lag (ranging from 30 to 90 days) in reporting premium data by some of the ceding companies, the Company must estimate the ultimate written and earned premiums to be received from a ceding company as of each balance sheet date for the reinsurance business. Actual written premiums reported in the statements of operations are based upon reports received by 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.

Investments

The Company accounts for its investments in fixed maturity securities in accordance with the Financial Accounting Standard Board's ("FASB") Statement of Financial Accounting Standards ("FAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). Management determines the appropriate classification of securities at the time of purchase. As of December 31, 2003 and 2002, all investments in fixed maturity securities were designated as available-for-sale and are carried at fair value. The fair values of all our investments are calculated from independent market quotations.

The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts computed using the effective interest method. That amortization or accretion is included in net investment income. For mortgage-backed securities, and any other holdings for which there is prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any necessary adjustments required due to the resulting change in effective yields and maturities are recognized prospectively in current income.

Realized gains and losses on sales of investments are determined using the specific identification method. Unrealized gains and losses on investments, net of applicable deferred income taxes, are included in accumulated other comprehensive income in shareholder's equity. The Company has a formal review process for all securities in its 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 the Company has the ability and intent to hold the security for a sufficient period of time to allow for anticipated recoveries in fair value.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss on the balance sheet in "accumulated other comprehensive income" in shareholder's 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, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

Short-term investments are recorded at cost, which approximates fair value. Short-term investments are those with original maturities of greater than three months but less than one year from date of purchase.

Cash and Cash Equivalents

The Company classifies demand deposits as cash. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

Deferred Acquisition Costs

Acquisition costs incurred, that vary with and are directly related to the production of new business, are deferred. These costs include direct and indirect expenses such as commissions, brokerage expenses and costs of underwriting and marketing personnel. The Company's management uses judgment in determining what types of costs should be deferred, as well as what percentage of these costs should be deferred. The Company periodically conducts a study to determine which operating costs vary with, and are directly related to, the acquisition of new business and qualify for deferral. Acquisition costs other than those associated with the credit derivative products are deferred and amortized in relation to earned premiums. Ceding commissions received on premiums ceded 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.

Reserve for Losses and Loss Adjustment Expenses

Reserve for loss and loss adjustment expenses ("LAE") includes case reserves, incurred but not reported reserves ("IBNR") and portfolio reserves.

Case reserves are established when specific insured obligations are in or near default. Case reserves represent the present value of expected future loss payments and LAE, net of estimated recoveries but before considering ceded reinsurance. Financial guaranty insurance and reinsurance case reserves are discounted at 6.0%, which is the approximate taxable equivalent yield on the investment portfolio in all periods presented.

IBNR is an estimate of the amount of losses where 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 mortgage guaranty reinsurance within the mortgage guaranty segment and for title reinsurance, auto residual value reinsurance and trade credit reinsurance within the other segment.

In addition to IBNR, the Company records portfolio reserves for financial guaranty insurance and reinsurance, credit derivatives, mortgage guaranty and title reinsurance business. Portfolio reserves are established with respect to the portion of the Company's business for which case reserves have not been established. Portfolio reserves are established in an amount equal to the portion of actuarially estimated ultimate losses related to premiums earned to date as a percentage of total expected premiums for that in-force business. Actuarially estimated ultimate losses on financial guaranty exposures are developed considering the net par outstanding of each insured obligation, taking account of the probability of future default, the expected timing of the default and expected recovery following default. These factors vary by type of issue (for example, municipal, structured finance or corporate), current credit rating and remaining term of the underlying obligation and are principally based on historical data obtained from rating agencies. Actuarially estimated ultimate losses on mortgage guaranty reinsurance and title reinsurance are principally determined based on the historical industry loss experience, net of expected recoveries. During an accounting period, portfolio reserves principally increase or decrease based on changes in the aggregate net amount at risk and the probability of default resulting from changes in credit quality of insured obligations, if any.

The Company updates its estimates of loss and LAE reserves quarterly. Loss assumptions used in computing losses and LAE reserves are periodically updated for emerging experience, and any resulting changes in reserves are recorded as a charge or credit to earnings in the period such estimates are changed. Due to the inherent uncertainties of estimating loss and LAE reserves, specifically for the high severity, low frequency financial guaranty business that the Company writes, actual experience may differ from the estimates reflected in our combined financial statements, and the differences may be material.

Profit commissions

Under the terms of certain of the Company's reinsurance contracts, the Company is obligated to pay the ceding company at predetermined future dates a contingent commission based upon a specified percentage of the net underwriting profits. As of the balance sheet date, the Company's liability for the present value of expected future payments is shown on the balance sheet under the caption, "Profit commission payable". The unamortized discount on this liability was \$4.7 million and \$7.9 million as of December 31, 2003 and 2002, respectively.

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 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.

Value of Reinsurance Business Assumed

The value of reinsurance business assumed and recorded at the inception of a retrocessional reinsurance contract represents the difference between the estimated ultimate amount of the liabilities assumed under retroactive reinsurance contracts and the consideration received under the contract. The value of reinsurance business assumed is amortized to losses and LAE based on the payment pattern of the losses assumed. The unamortized value is reviewed regularly to determine if it is recoverable under the terms of the contract, estimated losses and LAE and anticipated investment income. If such amounts are estimated to be unrecoverable, they are expensed.

Goodwill

Prior to January 1, 2002, goodwill was amortized over twenty-five years on a straight-line basis. Beginning January 1, 2002, goodwill is no longer amortized, but rather is evaluated for impairment at least annually. Management has determined that goodwill is not impaired at December 31, 2003.

Income Taxes

Certain of the Company's subsidiaries are subject to U.S. income tax. In accordance with FAS No. 109, "Accounting for Income Taxes", deferred income taxes are provided for with respect to 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, reserve for losses and LAE, unearned premium reserve, unrealized gains and losses on investments, unrealized gains and losses on

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derivative financial instruments and statutory contingency reserves. A valuation allowance is recorded to reduce the deferred tax asset to that amount that is more likely than not to be realized.

Earning Per Share

Basic earnings per share is calculated using the shares issued upon the formation of the Company, for all periods presented. All potentially dilutive securities, including unvested restricted stock and stock options are excluded from the basic earnings per share calculation. In calculating diluted earnings per share, the shares issued are increased to include all potentially dilutive securities. Basic and diluted earnings per share are calculated by dividing net income by the applicable number of shares as described above.

Stock Based Compensation

Stock based compensation is based on ACE stock. The Company accounts for stock-based compensation plans in accordance with APB No. 25. No compensation expense for options is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. Pro forma information regarding net income and earnings per share is required by FAS No. 123, "Accounting for Stock-Based Compensation". In December 2002, FASB issued FAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." FAS 148 amends the disclosure requirements of FAS 123 to require prominent disclosure in both annual and interim financial statements regarding the method of accounting for stock-based compensation and the effect of the method used on reported results.

For restricted stock awards, the Company records the market value of the shares awarded at the time of the grant as unearned stock grant compensation and includes it as a separate component of shareholder's equity. The unearned stock grant compensation is amortized into income ratably over the vesting period.

The following table outlines the Company's net income, basic and diluted earnings per share for the years ended December 31, 2003, 2002 and 2001, had the compensation cost been determined in accordance with the fair value method recommended in FAS 123.

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars, except per share amounts)		
Net income as reported	\$ 214,522	\$ 72,569	\$ 63,813
Add: Stock-based compensation expense included in reported net income, net of income tax	2,025	1,234	420
Deduct: Compensation expense, net of income tax	4,037	2,778	988
Pro Forma	\$ 212,510	\$ 71,025	\$ 63,245
Earnings Per Share:			
Basic	\$ 2.83	\$ 0.95	\$ 0.84
Diluted	\$ 2.83	\$ 0.95	\$ 0.84

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3. Recent Accounting Pronouncements

In May 2003, Financial Accounting Standards Board ("FASB") issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FAS 150"), which establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. FAS 150 requires the classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). FAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS 150 did not have a material impact on the combined financial statements.

In April 2003, the FASB issued FAS No. 149, "Amendment of FASB Statement No. 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement improves financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. For example, this statement requires that financial guaranty insurance, for which the underlying risk is linked to a derivative, be accounted for as a derivative. This statement is effective for contracts entered into or modified after June 30, 2003, except for the provisions of this Statement that relate to FAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, and for hedging relationships designated after June 30, 2003. All provisions are to be applied prospectively, except for the provisions of this Statement that relate to FAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003. These provisions are to be applied in accordance with their respective effective dates. The adoption of FAS 149 did not have a material impact on the combined financial statements.

In December 2002, FASB issued FAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("FAS 148"). FAS 148 provides alternative methods of transitioning for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. FAS 148 amends the disclosure requirements of FAS No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. FAS 148 is effective for companies with fiscal years ending after December 15, 2002. The Company continues to account for stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25 ("APB 25").

Effective January 1, 2002, the Company adopted FAS No. 141, "Business Combinations" and FAS No. 142, "Goodwill and Other Intangible Assets". FAS No. 141, which supercedes APB 16, "Business Combinations," requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and provides specific criteria for initial recognition of intangible assets apart from goodwill. FAS No. 142, which supercedes APB 17, "Intangible Assets," requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be tested for impairment at least annually. FAS No. 142 established new accounting and reporting standards for acquired goodwill and other intangible assets. It requires that an entity determine if the goodwill or other intangible assets has an indefinite or a finite useful life. Those with indefinite useful lives will not be subject to amortization and must be tested annually for impairment. See Note 5 for further information.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), as an interpretation of Accounting Research Bulletin No. 51, "Consolidated

Financial Statements." FIN 46 addresses consolidation of variable interest entities (VIEs) by business enterprises. An entity is considered a VIE subject to consolidation if the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support or if the equity investors lack one of three characteristics of a controlling financial interest. First, the equity investors lack the ability to make decisions about the entity's activities through voting rights or similar rights. Second, they do not bear the obligation to absorb the expected losses of the entity if they occur. Lastly, they do not claim the right to receive expected returns of the entity if they occur, which are the compensation for the risk of absorbing the expected losses. FIN 46 requires that VIEs be consolidated by the entity that maintains the majority of the risks and rewards of ownership. This Interpretation applies immediately to VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. FASB deferred the effective date of FIN 46 until the end of the first interim or annual period ending after December 15, 2003 for VIEs created before February 1, 2003. The adoption of FIN 46 did not have a material impact on the financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 outlines certain accounting guidelines, effective for fiscal years beginning after December 15, 2002, from which the Company's insurance transactions and derivative contracts are excluded. In addition, FIN 45 expands the disclosures required by a guarantor in its interim and annual financial statements regarding obligations under certain guarantees. These disclosure requirements are effective for the year ended December 31, 2002. The Company's financial position and results of operations did not change as a result of the adoption of FIN 45.

4. Derivatives

The Company adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities as of January 1, 2001. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the combined balance sheet 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. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company had no derivatives that were designated as hedges during 2003, 2002 and 2001.

Certain products (principally credit protection oriented) issued by the Company have been deemed to meet the definition of a derivative under FAS 133. These products consist primarily of credit derivatives. In addition, the Company issued a few index-based derivative financial instruments. The Company uses derivative instruments primarily to offer credit protection to others. Effective January 1, 2001, the Company records these transactions at fair value. Where available, we use quoted market prices to fair value these insured credit derivatives. If quoted prices are not available, particularly for senior layer collateralized debt obligations ("CDO") 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 agency models, or may be developed internally, depending on the circumstances. These models and the related assumptions are continually reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely market information. The fair value of derivative financial instruments reflects the estimated cost to the Company to purchase protection on its outstanding exposures and is not an estimate of expected losses incurred. 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 combined financial statements, and the differences may be material.

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The Company records premiums received from the issuance of derivative instruments in gross written premiums and establishes unearned premium reserves and loss reserves. These loss reserves represent the Company's best estimate of the probable losses expected under these contracts. Unrealized gains and losses on derivative financial instruments are computed as the difference between fair value and the total of the unearned premium reserves, losses and LAE reserve, premiums receivable, prepaid reinsurance premiums and reinsurance recoverable on ceded losses. Changes in unrealized gains and losses on derivative financial instruments are reflected in the statement of operations. Cumulative unrealized gains and losses are reflected as assets and liabilities, respectively, in the Company's balance sheets. Unrealized gains and losses resulting from changes in the fair value of derivatives occur because of changes in interest rates, credit spreads, recovery rates, the credit ratings of the referenced entities and other market factors. In the event that we terminate a derivative contact prior to maturity as a result of a decision to exit a line of business or for risk managemnet purposes, the unrealized gain or loss will be realized through premiums earned and losses incurred.

As of January 1, 2001, the Company recorded an expense related to the cumulative effect of adopting FAS 133 of \$24.1 million, net of applicable deferred income tax benefit of \$12.3 million.

The Company recorded a pretax net unrealized gain on derivative financial instruments of \$98.4 million for the year ended December 31, 2003, and a pretax net unrealized loss on derivative financial instruments of \$54.2 and \$16.3 million for the years ended December 31, 2002 and 2001, respectively.

The following table summarizes activities related to derivative financial instruments (in thousands of U.S. dollars):

	2003	2002	2001
<i>Balance sheets as of December 31,</i>			
Assets:			
Premiums receivable	\$ 34,885	\$ 28,746	
Prepaid reinsurance premiums	2,399	2,952	\$ 3,012
Reinsurance recoverable on ceded losses	16,937	10,000	
Liabilities:			
Unearned premium reserves	138,531	179,839	58,667
Reserve for losses and LAE	103,922	118,677	43,584
Unrealized losses on derivative financial instruments	8,558	107,007	52,849
Net liability fair value of derivative financial instruments	\$ 196,790	\$ 363,825	\$ 152,088
<i>Statements of operations for the years ended December 31,</i>			
Net written premiums	\$ 89,759	\$ 249,335	\$ 94,476
Net earned premiums	130,514	128,103	51,358
Loss and loss adjustment expenses incurred	(60,075)	(107,111)	(36,497)
Unrealized gains (losses) on derivative financial instruments	98,449	(54,158)	(16,255)
Total impact of derivative financial instruments	\$ 168,888	\$ (33,166)	\$ (1,394)

5. Goodwill

Goodwill of \$94.6 million arose from ACE's acquisition of Capital Re Corporation as of December 31, 1999 and was being amortized over a period of twenty-five years. On January 1, 2002, the Company ceased amortizing goodwill as part of its adoption of FAS 142.

The following table reconciles reported net income and earnings per share to adjusted net income and earnings per share excluding goodwill amortization:

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars except per share amounts)		
Reported net income	\$ 214,522	\$ 72,569	\$ 63,813
Add back: Goodwill amortization			3,785
Adjusted net income	\$ 214,522	\$ 72,569	\$ 67,598
Basic earnings per share:			
Reported earnings per share	\$ 2.86	\$ 0.97	\$ 0.85
Add back: Goodwill amortization			.05
Adjusted earnings per share	\$ 2.86	\$ 0.97	\$ 0.90
Diluted earnings per share:			
Reported earnings per share	\$ 2.86	\$ 0.97	\$ 0.85
Add back: Goodwill amortization			.05
Adjusted earnings per share	\$ 2.86	\$ 0.97	\$ 0.90

The following table details goodwill by segment as of December 31, 2003, 2002 and 2001:

	(in thousands of U.S. dollars)
Financial guaranty direct	\$ 14,748
Financial guaranty reinsurance	70,669
Mortgage guaranty	
Other	1,645
Total	\$ 87,062

6. Statutory Accounting Practices

These financial statements are prepared on a GAAP basis, which differs in certain respects from accounting practices prescribed or permitted by the insurance regulatory authorities, including the Maryland Insurance Department, the New York State Insurance Department as well as the statutory requirements of the Minister of Finance of Bermuda.

Statutory capital and surplus as of December 31, 2003 and 2002 was \$980.5 million and \$835.4 million, respectively. Statutory net income for the years ended December 31, 2003, 2002 and 2001 was \$187.8 million, \$80.8 million and \$78.8 million, respectively.

There are no permitted accounting practices on a statutory basis.

7. Insurance in Force

As of December 31, 2003 and 2002, net financial guaranty par in force including insured CDS was approximately \$87.5 billion and \$80.4 billion, respectively. The portfolio was broadly diversified by payment source, geographic location and maturity schedule, with no single risk representing more than 1.2% of the total net par in force. The composition of net par in force by bond type was as follows:

	As of December 31,	
	2003	2002
	(in billions of U.S. dollars)	
Municipal exposures:		
Tax-backed	\$ 21.1	\$ 19.5
Municipal utilities	11.1	10.4
Healthcare	5.7	5.7
Special revenue	9.0	8.5
Structured municipal	3.4	3.5
Other municipal	2.3	1.8
	52.6	49.4
Non-municipal exposures:		
Collateralized debt obligations	\$ 16.1	\$ 12.1
Consumer receivables	9.4	8.5
Commercial receivables	5.3	3.4
Single name corporate CDS	2.3	4.8
Other structured finance	1.8	2.2
	34.9	31.0
Total exposures	\$ 87.5	\$ 80.4

Maturities for municipal obligations range from 1 to 40 years, with the typical life in the 12 to 15 year range. Non-municipal transactions have legal maturities that range from 1 to 30 years with a typical life of 5 to 7 years. Maturities on single name corporate CDSs range from 1 to 7 years with an average remaining maturity of 1.7 years as of December 31, 2003.

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The portfolio contained exposures in each of the 50 states and abroad. The distribution of net financial guaranty par outstanding by geographic location is set forth in the following table:

	As of December 31, 2003		As of December 31, 2002	
	Net par outstanding	% of Net par outstanding	Net par outstanding	% of Net par outstanding
(in billions of U.S. dollars)				
Domestic:				
California	\$ 7.2	8.2%	\$ 6.8	8.5%
New York	5.6	6.4	5.5	6.8
Texas	3.2	3.6	3.2	4.0
Florida	2.8	3.2	3.1	3.9
Illinois	2.8	3.2	2.8	3.5
Pennsylvania	2.2	2.5	2.3	2.9
New Jersey	2.0	2.3	2.2	2.7
Massachusetts	1.7	1.9	1.9	2.4
Puerto Rico	1.5	1.7	1.8	2.2
Washington	1.3	1.5	1.4	1.7
Other-Muni	18.2	20.8	17.1	21.3
Other-Non Muni	32.2	36.8	28.1	35.0
Total Domestic exposures	80.7	92.1	76.2	94.8
International:				
United Kingdom	3.3	3.8	1.7	2.1
Italy	0.4	0.5	0.2	0.2
Australia	0.4	0.5	0.2	0.2
France	0.4	0.5	0.3	0.4
Brazil	0.3	0.3	0.2	0.2
Other	2.0	2.3	1.6	2.0
Total International exposures	6.8	7.9	4.2	5.1
Total exposures	\$ 87.5	100.0%	\$ 80.4	100.0%

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

Ratings	As of December 31, 2003		As of December 31, 2002	
	Net par outstanding	% of Net par outstanding	Net par outstanding	% of Net par outstanding
(in billions of U.S. dollars)				
AAA	\$ 26.2	29.9%	\$ 20.7	25.7%
AA	17.6	20.1	14.4	17.9
A	29.9	34.2	32.9	40.9
BBB	12.3	14.1	11.7	14.6
Below investment grade	1.5	1.7	0.7	0.9

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	As of December 31, 2003		As of December 31, 2002	
Total exposures	\$	87.5	100.0%	\$ 80.4 100.0%

As part of its financial guaranty business, the Company enters into CDS transactions whereby one party pays a periodic fee in fixed basis points on a notional amount in return for a contingent payment

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by the other party in the event one or more defined credit events occurs with respect to one or more third party reference securities or loans. A credit event may be a nonpayment event such as a failure to pay, bankruptcy, or restructuring, as negotiated by the parties to the CDS transaction. The total notional amount of insured CDS exposure outstanding as of December 31, 2003 and 2002 and included in the Company's financial guaranty exposure was \$23.4 billion and \$20.2 billion, respectively.

As of December 31, 2003 and 2002, the Company's net mortgage guaranty insurance in force (representing the current principal balance of all mortgage loans currently reinsured) was approximately \$3.8 billion and \$4.3 billion, respectively, and net risk in force was approximately \$2.2 billion and \$2.1 billion, respectively. These amounts are not included in the above table.

8. Premiums Earned from Refunded and Called Bonds

Premiums earned include \$19.2 million, \$14.0 million and \$4.5 million for 2003, 2002 and 2001, respectively, related to refunded and called bonds.

9. Investments

The following table summarizes the Company's aggregate investment portfolio as of December 31, 2003:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands of U.S. dollars)			
Fixed maturity securities				
U.S. government and agencies	\$ 255,173	\$ 16,297	\$ (400)	\$ 271,070
Obligations of state and political subdivisions	788,436	65,364	(1,014)	852,786
Corporate securities	268,118	21,548	(1,075)	288,591
Mortgage-backed securities	538,856	13,193	(2,144)	549,905
Structured securities	75,776	2,265	(94)	77,947
Foreign government and agencies	11,384	540	(6)	11,918
Total fixed maturity securities	1,937,743	119,207	(4,733)	2,052,217
Short-term investments	137,517			137,517
Total investments	\$ 2,075,260	\$ 119,207	\$ (4,733)	\$ 2,189,734

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The following table summarizes the Company's aggregate investment portfolio as of December 31, 2002:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands of U.S. dollars)				
<i>Fixed maturity securities</i>				
U.S. government and agencies	\$ 279,436	\$ 22,676	\$ (1)	\$ 302,111
Obligations of state and political subdivisions	626,370	54,629	(57)	680,942
Corporate securities	271,224	23,724	(2,050)	292,898
Mortgage-backed securities	533,662	19,752	(179)	553,235
Structured securities	73,423	3,694	(27)	77,090
Foreign government and agencies	1,501	284		1,785
Total fixed maturity securities	1,785,616	124,759	(2,314)	1,908,061
Short-term investments	144,346			144,346
Total investments	\$ 1,929,962	\$ 124,759	\$ (2,314)	\$ 2,052,407

Approximately 25% of the Company's total investment portfolio as of December 31, 2003 was composed of mortgage-backed securities ("MBS"), including collateralized mortgage obligations and commercial mortgage-backed securities. As of December 31, 2003, the weighted average credit quality of the Company's entire investment portfolio was AA+.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities as of December 31, 2003, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
(in thousands of U.S. dollars)		
Due within one year	\$ 21,793	\$ 22,180
Due after one year through five years	229,158	242,651
Due after five years through ten years	299,245	323,621
Due after ten years	848,691	913,860
Mortgage-backed securities	538,856	549,905
Total	\$ 1,937,743	\$ 2,052,217

Proceeds from the sale of available-for-sale fixed maturity securities were \$619.6 million, \$965.5 million, and \$1,160.4 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Net realized gains consisted of the following:

For the years ended December 31,			
2003	2002	2001	
(in thousands of U.S. dollars)			
Gains	\$ 6,499	\$ 16,824	\$ 26,918
Losses	(964)	(3,151)	(4,478)
Other than temporary impairments	(52)	(5,810)	(9,300)

	For the years ended December 31,		
Net realized investment gains	\$ 5,483	\$ 7,863	\$ 13,140

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During 2002, the Company determined that the decline in value related to WorldCom bonds held in its investment portfolio was "other than temporary." Accordingly, the Company recorded a write-down of the carrying value of these bonds in the amount of \$5.8 million.

In June 1996, the Company invested approximately \$10.9 million in CGA Group Ltd ("CGA"), a Bermuda domiciled insurance company formed to provide financial guaranty insurance of structured securities, including commercial real estate and asset-backed transactions. The Company's investment was in the form of common and preferred shares. In 1998, the Company recorded a write-down of its investment in CGA of \$7.5 million, based on management's belief that the carrying value of CGA had suffered an other than temporary impairment. In March 2001, based on its contractual obligation to contribute additional capital in the event CGA was downgraded, the Company contributed an additional \$7.5 million to CGA, thereby increasing its carrying value of the investment to \$10.9 million. Concurrently, the Company recorded a write-down in its investment in CGA of \$9.3 million, due to its other than temporary impairment. In July 2001, the Company's remaining investment in CGA, \$1.6 million, was redeemed, resulting in no realized gain or loss. As of December 31, 2001, the Company did not have an investment in CGA.

The change in net unrealized gains consists of:

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars)		
Fixed maturity securities	\$ (7,971)	\$ 66,015	\$ (2,232)
Foreign exchange translation	56	(133)	180
Deferred income tax provision/(benefit)	(144)	20,250	(3,034)
Change in net unrealized gains on fixed maturity securities	\$ (7,771)	\$ 45,632	\$ 982

The following table summarizes, for all securities in an unrealized loss position at December 31, 2003, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

As of December 31, 2003

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(in millions of U.S. dollars)					
U.S. government and agencies	\$ 16.2	\$ (0.2)	\$	\$	\$ 16.2	\$ (0.2)
Obligations of state and political subdivisions	64.5	(1.2)			64.5	(1.2)
Corporate securities	44.6	(1.2)			44.6	(1.2)
Mortgage backed securities	155.0	(2.1)			155.0	(2.1)
Structured securities						
Foreign government and agencies						
Total	\$ 280.3	\$ (4.7)	\$	\$	\$ 280.3	\$ (4.7)

Included above are 104 fixed maturity securities. The Company has considered factors such as sector credit ratings and industry analyst reports in evaluating the above securities for impairment and has concluded that these securities are not other than temporarily impaired as of December 31, 2003.

Net investment income is derived from the following sources:

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars)		
Income from fixed maturities	\$ 96,541	\$ 94,776	\$ 95,457
Income from short-term investments	2,383	3,744	5,844
Total gross investment income	98,924	98,520	101,301
Less: investment expenses	(2,650)	(1,280)	(1,781)
Net investment income	\$ 96,274	\$ 97,240	\$ 99,520

Under agreements with its cedants and in accordance with statutory requirements, the Company maintained fixed maturity securities in trust accounts of \$370.0 million and \$355.2 million as of December 31, 2003 and 2002, respectively, for the benefit of reinsured companies and for the protection of policyholders, generally in states in which the Company or its subsidiaries, as applicable, are not licensed or accredited.

As part of its insured CDS business, the Company is party to certain contractual agreements that require collateral to be posted for the benefit of either party depending on ratings of the parties to the agreement and changes in fair value relative to applicable specified thresholds of the insured swap transactions. As of December 31, 2003 and 2002, the Company posted collateral of \$154.8 million and \$194.7 million, respectively, for the benefit of CDS customers.

10. Reserve for Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending balances of the reserve for losses and LAE, including case, IBNR and portfolio reserves:

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars)		
Balance as of January 1	\$ 458,831	\$ 401,079	\$ 170,973
Less reinsurance recoverable	(100,826)	(70,092)	(14,836)
Net balance as of January 1	358,005	330,987	156,137
Incurring losses and loss adjustment expenses:			
Current year	105,623	156,626	164,881
Prior years	38,987	(7,546)	12,661
Transfer/Novation of life, accident and health reinsurance reserves		(28,820)	
	144,610	120,260	177,542
Loss and loss adjustment expenses paid and recovered			
Current year	30,702	69,157	6,726
Prior years	69,133	20,633	22,349
	99,835	89,790	29,075

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For the years ended December 31,

Value of reinsurance business assumed	(6,096)	(6,097)	26,419
Unrealized foreign exchange gain/(loss) on reserves revaluation	(3,785)	(2,645)	36
Net balance as of December 31	400,469	358,005	330,987
Plus reinsurance recoverable	122,124	100,826	70,092
Balance as of December 31	\$ 522,593	\$ 458,831	\$ 401,079

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The financial guaranty case basis reserves have been discounted using a rate of 6% in 2003, 2002 and 2001, resulting in a discount of \$19.8 million, \$14.9 million and \$8.0 million, respectively.

The prior year development in 2003 of \$39.0 million in the provision for losses and LAE is due in part to an increase of \$25 million in case activity on the structured finance line of business due to credit deterioration in collateralized debt obligations assumed through reinsurance treaties. In addition, prior year development includes an increase in the case reserve on the WorldOmni auto residual value transaction (see note 15 "Commitments and Contingencies").

In 2002, the favorable prior year development of \$7.5 million in the provision for losses and LAE relates primarily to \$3.3 million of higher than previously estimated salvage on a non-municipal transaction and \$1.7 million of favorable development in the trade credit reinsurance line of business.

In 2002, the Company transferred to an affiliate its LA&H book of business. This transfer had no impact on net income and resulted in a \$28.8 million reduction of reserves related to the prior year with a corresponding reduction in premiums earned and deferred acquisition costs (see Note 14 for further details).

The prior year adverse development for loss and LAE in 2001 of \$12.7 million is mainly due to \$9.5 million of losses incurred for the trade credit line of business plus accretion of the discounted reserves on prior years financial guaranty case basis reserves of \$3.6 million. The adverse development in trade credit line of business was primarily due to deteriorating corporate credit environment and lower than previously estimated salvage values.

Losses and loss adjustment expenses paid, net of recoveries, were \$99.8 million, \$89.8 million and \$29.1 million, respectively, for the years ended 2003, 2002 and 2001. Of the total net loss payments, \$77.1 million and \$36.4 million, respectively, related to equity layer CDO losses paid in 2003 and 2002. In addition, during 2002, \$11.6 million of losses were paid for a single name credit derivative and \$13.3 million of losses were paid for a financial guaranty contract.

The value of reinsurance business assumed represents the change in the value of reinsurance business assumed asset for retroactive reinsurance contracts.

11. Income Taxes

The Company's Bermuda subsidiaries are not subject to any income, withholding or capital gains taxes under current Bermuda law. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Bermuda subsidiaries will be exempt from taxation in Bermuda until March 2016.

The Company's U.S. subsidiaries are subject to income taxes imposed by U.S. authorities and file U.S. tax returns.

Assured Guaranty Corp., Assured Guaranty Risk Assurance Company, ACE Financial Services, ACE Asset Management, Assured Guaranty Financial Products and AFP Transferor Inc. have historically prepared a consolidated federal income tax return with ACE Prime Holding Inc., an affiliate of the Company. AGRO and its subsidiaries, Assured Guaranty Mortgage, ACTR and Assured Guaranty Inc., have historically filed a consolidated federal income tax return. AGRO, a Bermuda domiciled company, has elected under Section 953(d) of the Internal Revenue Code to be taxed as a U.S. domestic corporation. Historically each company has paid its proportionate share of the consolidated federal tax burden as if each company filed on a separate return basis with current period credit for net losses.

The following table provides the Company's income tax provision and effective tax rates:

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars)		
Current tax expense	\$ 18,873	\$ 17,858	\$ 6,197
Deferred tax (benefit) expense	12,782	(7,267)	15,989
Provision for income taxes	\$ 31,655	\$ 10,591	\$ 22,186
Effective tax rate	12.9%	12.7%	20.2%

Reconciliation of the difference between the provision for income taxes and the expected tax provision at statutory rates in taxable jurisdictions was as follows:

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars)		
Expected tax provision at statutory rates in taxable jurisdictions	\$ 41,945	\$ 19,875	\$ 28,955
Tax-exempt interest	(10,319)	(9,536)	(8,647)
Other	29	252	1,878
Total provision for income taxes	\$ 31,655	\$ 10,591	\$ 22,186

The deferred income tax liability reflects the tax effect of the following temporary differences:

	As of December 31,	
	2003	2002
	(in thousands of U.S. dollars)	
Deferred tax assets:		
Reserves for loss and loss adjustment expenses	\$ 29,716	\$ 32,566
Tax and loss bonds	16,071	16,071
Net operating loss carry forward	31,101	23,053
Unrealized losses on derivative financial instruments	10,084	25,091
Alternative minimum tax credit	2,711	2,159
Other	654	
Total deferred income tax assets	90,337	98,940
Deferred tax liabilities:		
Deferred acquisition costs	56,617	53,942
Unearned premium reserves	6,105	4,412

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	As of December 31,	
Contingency reserve	28,124	28,124
Unrealized appreciation on investments	33,441	33,585
Other	14,687	14,876
Total deferred income tax liabilities	138,974	134,939
Valuation allowance	7,000	7,000
Net deferred income tax liability	\$ 55,637	\$ 42,999

As of December 31, 2003, AGRO had a standalone net operating loss carry-forward of \$89 million, of which \$66 million is available to offset future U.S. federal taxable income through 2017 and \$23 million is available to offset future U.S. federal taxable income through 2023. As a Section 953(d)

company, any standalone net operating losses of AGRO are treated as dual consolidation losses and are not permitted to offset income of any other members of the consolidated group. Management believes it is more likely than not that \$20 million of AGRO's \$89 million net operating loss will not be utilized before it expires and has established a \$7.0 million valuation allowance related to the net operating loss carry-forward deferred tax asset.

As of December 31, 2003 and 2002, the Company had a current income payable of \$2.8 million and \$2.7 million, respectively.

12. Reinsurance

To limit its exposure on assumed risks, the Company enters into certain proportional and non-proportional retrocessional agreements with other insurance companies, primarily ACE subsidiaries, that cede a portion of the risk underwritten to other insurance companies. 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 reinsurance amounts were as follows:

For the years ended December 31,			
	2003	2002	2001
(in thousands of U.S. dollars)			
Premiums Written			
Direct	\$ 94,092	\$ 249,975	\$ 94,973
Assumed	255,144	167,183	347,877
Ceded	142,236	(64,699)	(236,288)
Net	\$ 491,472	\$ 352,459	\$ 206,562
Premiums Earned			
Direct	\$ 133,859	\$ 129,615	\$ 52,406
Assumed	203,288	174,502	334,674
Ceded	(26,286)	(56,727)	(93,559)
Net	\$ 310,861	\$ 247,390	\$ 293,521
Loss and loss adjustment expenses			
Direct	\$ 63,465	\$ 122,602	\$ 30,202
Assumed	116,012	30,627	223,110
Ceded	(34,867)	(32,969)	(75,770)
Net	\$ 144,610	\$ 120,260	\$ 177,542

Reinsurance recoverable on ceded unpaid losses and LAE as of December 31, 2003 and 2002 is \$122.1 million and \$100.8 million, respectively. Of these amounts, \$100.1 million and \$92.2 million, respectively, relate to reinsurance agreements with affiliates (See Note 14).

The following table presents the affiliated and third party reinsurance recoverable balances on ceded losses and provides Standard & Poors ("S&P") ratings for individual reinsurers:

As of December 31,		
2003	2002	S&P Rating

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	As of December 31,			
	(in thousands of U.S. dollars)			
ACE American	\$	83,221	\$	77,223 A+
ACE Bermuda		16,937		15,000 A+
Other non affiliated		21,966		8,603 BB-
Reinsurance recoverable on ceded unpaid loss and LAE	\$	122,124	\$	100,826

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13. Insurance Regulations

The principal source of cash for the payment of debt service and dividends by the Company is the receipt of dividends from Assured Guaranty Corp., a Maryland registered insurance company. Under current Maryland insurance law, as it applies to Assured Guaranty Corp., any proposed payment of a dividend or distribution may only be paid out of "earned surplus." "Earned surplus" is defined as the part of surplus that, after deduction of all losses, represents the net earnings, gains or profits that have not been distributed to shareholders as dividends, transferred to stated capital, transferred to capital surplus, or applied to other purposes permitted by law, but does not include unrealized capital gains or reevaluation of assets. If a dividend or distribution is an "extraordinary dividend," it must be reported to, and approved by, the Insurance Commissioner prior to payment. An "extraordinary dividend" is defined to be any dividend or distribution to stockholders, such as Assured Guaranty, which together with dividends paid during the preceding twelve months exceeds the lesser of 10% of Assured Guaranty Corp.'s policyholders' surplus at the preceding December 31 or 100% of Assured Guaranty's adjusted net investment income during that period. Further, an insurer may not pay any dividend or make any distribution to its shareholders unless the insurer notifies the Insurance Commissioner of the proposed payment within five business days following declaration and at least ten days before payment. The Insurance Commissioner may declare that such dividend not be paid if the Commissioner finds that the insurer's policyholders' surplus would be inadequate after payment of the dividend or could lead the insurer to a hazardous financial condition. The maximum amount available during 2004 for the payment of dividends by Assured Guaranty Corp. which would not be characterized as "extraordinary dividends" was approximately \$25.6 million. Under Maryland insurance regulations, Assured Guaranty Corp. is required at all times to maintain a minimum surplus of \$750,000. During the years ended December 31, 2003, 2002 and 2001, Assured Guaranty Corp. paid \$10.0 million, \$8.0 million and \$5.5 million, respectively, in dividends.

AGRI and AGRO's dividend distribution are governed by Bermuda law. Under Bermuda law, dividends may be paid out of the profits (defined as accumulated realized profits less accumulated realized losses). Distribution to shareholders may also be paid out of surplus, limited by requirements that the subject company must at all times (i) maintain the minimum share capital required under the Insurance Act of 1978 and (ii) have relevant assets in an amount at least equal to 75% of relevant liabilities, both as defined under the Insurance Act of 1978. Under these restrictions, the maximum allowable dividend payout by AGRI amounted to \$569.1 million as of December 31, 2003. During 2003, AGRI paid dividends of \$25 million to its parent, ACE Bermuda.

Going forward, Assured Guaranty Corp. and AGRI have each committed to S&P and Moody's that it will not pay more than \$10 million per year in dividends.

Assured Guaranty Mortgage is a New York Insurance Company. Under the New York Insurance Law, Assured Guaranty Mortgage may declare or pay any dividend only out of "earned surplus," which is defined as that portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital, capital surplus or contingency reserves, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. Additionally, no dividend may be declared or distributed in an amount which, together with all dividends declared or distributed by it during the preceding twelve months, exceeds the lesser of 10% of Assured Guaranty Mortgage's statutory surplus as shown on its latest statutory financial statement on file with the New York Superintendent of Insurance, or 100% of Assured Guaranty Mortgage's adjusted net investment income during that period, unless, upon prior application, the Superintendent approves a greater dividend or distribution after finding that the company will retain sufficient surplus to support its obligations and writings. The maximum amount available during 2002 and 2003, respectively, for the payment of dividends by

Assured Guaranty Mortgage which would not be characterized as "extraordinary dividends" was zero. Assured Guaranty Mortgage did not declare or pay any dividends during 2003.

ACTR is subject to New York Insurance Law and the regulations promulgated there under governing title insurers. Accordingly, dividends may only be declared and distributed out of earned surplus as defined and only if such dividends do not reduce surplus to less than 50% of outstanding common share capital. Additionally, no dividend may be declared or distributed in an amount which, together with all dividends declared or distributed during the preceding 12 months, exceeds the lesser of 10% of outstanding common share capital unless, after deducting such dividends, surplus is at least equal to 50% of statutory reinsurance reserve or at least equal to \$250,000, whichever is the greater. Subject to the above, the maximum dividend payable by ACTR during 2004 is \$0.8 million. During 2003, ACTR paid \$2.5 million of dividends to its parent, AGRO.

14. Related Party Transactions

The following table summarizes the non-affiliated and affiliated components of each line item where applicable in the income statement:

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars)		
Net earned premiums			
Non-affiliated:			
Gross written premiums	\$ 337,034	\$ 409,462	\$ 272,615
Ceded written premiums	(1,787)	(3,302)	(8,338)
Net written premiums	335,247	406,160	264,277
(Increase)/decrease in net unearned premium reserves	(20,394)	(129,089)	(64,524)
Non-affiliated net earned premiums	\$ 314,853	\$ 277,071	\$ 199,753
Affiliated:			
Gross written premiums	\$ 12,202	\$ 7,696	\$ 170,235
Ceded written premiums	144,023	(61,397)	(227,950)
Net written premiums	156,225	(53,701)	(57,715)
(Increase)/decrease in net unearned premium reserves	(160,217)	24,020	151,483
Affiliated net earned premiums	\$ (3,992)	\$ (29,681)	\$ 93,768
Total	\$ 310,861	\$ 247,390	\$ 293,521
Net investment income	96,274	97,240	99,520
Net realized investment gains	5,483	7,863	13,140
Unrealized gains/losses on derivative financial instruments			
Non-affiliated	\$ 103,633	\$ (54,158)	\$ (16,255)
Affiliated	(5,184)		
Total	\$ 98,449	\$ (54,158)	\$ (16,255)

For the years ended December 31,

Other income	1,219	3,623	2,930
Total revenues	\$ 512,286	\$ 301,958	\$ 392,856
Loss and loss adjustment expenses			
Non-affiliated	\$ 158,271	\$ 125,833	\$ 64,074
Affiliated	(13,661)	(5,573)	113,468
Total	\$ 144,610	\$ 120,260	\$ 177,542

Profit commission expense			
Non-affiliated	\$ 10,174	\$ 9,807	\$ 9,413
Affiliated	(339)	(1,264)	(406)
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 9,835	\$ 8,543	\$ 9,007
	<u> </u>	<u> </u>	<u> </u>
Acquisition costs			
Non-affiliated	\$ 62,906	\$ 47,806	\$ 48,147
Affiliated	1,994	594	2,953
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 64,900	\$ 48,400	\$ 51,100
	<u> </u>	<u> </u>	<u> </u>
Operating expenses	41,026	31,016	29,771
Goodwill amortization			3,785
Interest expense	5,738	10,579	11,548
	<u> </u>	<u> </u>	<u> </u>
Total expenses	\$ 266,109	\$ 218,798	\$ 282,753
	<u> </u>	<u> </u>	<u> </u>
Income before provision for income taxes	246,177	83,160	110,103
Total provision for income taxes	31,655	10,591	22,186
	<u> </u>	<u> </u>	<u> </u>
Net income before cumulative effect of new accounting standard	\$ 214,522	\$ 72,569	\$ 87,917
Cumulative effect of new accounting standard, net of taxes of (\$12,277)			(24,104)
	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 214,522	\$ 72,569	\$ 63,813
	<u> </u>	<u> </u>	<u> </u>

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The following table summarizes the affiliated components of each balance sheet item, where applicable:

	As of December 31,	
	2003	2002
	(in thousands of U.S. dollars)	
Assets		
Prepaid reinsurance premiums		\$ 162,428
Reinsurance recoverable on ceded losses	\$ 100,158	92,223
Due from affiliate	115,000	
Premiums receivable	923	1,290
Value of reinsurance business assumed	14,226	20,322
Other assets	1,471	
Total affiliate assets	231,777	276,263
Non-affiliate assets	2,626,090	2,443,605
Total assets	\$ 2,857,867	\$ 2,719,868
Liabilities		
Unearned premium reserves	\$ 4,509	\$ 6,720
Reserve for loss and loss adjustment expenses	185,375	189,805
Unrealized losses on derivative financial instruments	(5,184)	
Funds held by Company under reinsurance agreements	9,250	24,795
Other liabilities		1,367
Total affiliate liabilities	193,950	222,687
Non-affiliate liabilities	1,226,293	1,239,945
Total liabilities	1,420,243	1,462,632
Total shareholder's equity	1,437,624	1,257,236
Total liabilities and shareholder's equity	\$ 2,857,867	\$ 2,719,868

The following table summarizes the non-affiliated and affiliated componentsts of cash flows from operations:

	As of December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars)		
Affiliated	\$ 23,762	\$ (26,745)	\$ (95,994)
Non-affiliated	176,268	304,472	255,987
Net cash flows provided by operating activities	\$ 200,030	\$ 277,727	\$ 159,993

There was no impact on cash flows from investing activities from affiliated transactions. All financing cash flows are from affiliated transactions.

Reinsurance agreements

In September 2001, Assured Guaranty Corp. entered into an excess of loss reinsurance agreement with ACE Bermuda which was effective January 1, 2001. Under the terms of the agreement, the Company paid \$52.5 million in premium, in two installments of \$27.5 million and \$25.0 million in September 2001 and March 2002, respectively, for a 10-year cover with a \$150 million limit. In June 2003, this agreement was cancelled and the unearned premium of \$39.8 million, loss reserves of \$12.5 million and profit commission of \$1.5 million were returned to Assured Guaranty Corp. This agreement was not replaced with a third party reinsurance contract. The Company ceded losses of \$2.5 million and \$10.0 million in 2003 and 2002, respectively, under this cover.

Through its AGRI subsidiary, the Company is party to a reinsurance agreement with ACE Bermuda. On December 31, 2001, under the terms of the agreement, the Company paid ACE Bermuda \$125 million of premium for a 25 year portfolio cover with a \$5 million per risk deductible, a \$50 million per risk limit and a \$400 million aggregate limit. In December 2003, this agreement was cancelled and the unearned premium of \$115.0 million and loss reserves of \$16.9 million were returned to AGRI in January 2004. As of December 31, 2003, the Company recorded receivables of \$131.9 million (\$115 million in due from affiliate and \$16.9 million in reinsurance recoverables) due from affiliate for the cancellation of this transaction. For the years 2003 and 2002, the Company ceded losses of \$11.9 million and \$5 million, respectively, under this cover.

In March 2001, the Company entered into a reinsurance agreement with one of its affiliates, Westchester Fire Insurance Company, whereby the Company reinsured a portion of an auto residual value insurance contract. Losses and LAE incurred and premiums earned recorded at inception amounted to \$84.8 million. The value of reinsurance business assumed recorded at the inception of the contract amounted to \$31.5 million and represented the difference between the estimated ultimate amount of the losses assumed under the retroactive reinsurance contract of \$116.3 million and the cash received of \$84.8 million. As of December 31, 2003 and 2002, the value of reinsurance business assumed was \$14.2 million and \$20.3 million, respectively, and the reserve for losses and loss adjustment expenses was \$116.3 million. In 2003, 2002 and 2001 the Company recorded amortization of the value of reinsurance business assumed in the amount of \$6.1 million, \$6.1 million and \$5.1 million, respectively.

In July 2001, the Company entered into a reinsurance transaction with an affiliate of ACE which it fully ceded to ACE American. Under the terms of these reinsurance agreements, the Company assumed and ceded premium of \$6.0 million, \$11.7 million and \$73.8 million in 2003, 2002 and 2001, respectively. Under the terms of these reinsurance agreements, the Company assumed and ceded losses of \$6.0 million, \$16.3 million and \$69.6 million in 2003, 2002 and 2001, respectively.

In 2002, the Company transferred its LA&H business to several ACE affiliates. The transfer was retroactive and resulted in a reduction of net written and earned premiums of \$40.2 million and \$32.2 million, respectively, with a related reduction in losses and LAE incurred and acquisition costs of \$28.8 and \$3.4 million, respectively.

In 2001, AGRI and ACE Bermuda entered into a funding facility agreement pursuant to which ACE Bermuda agreed to purchase up to \$150 million of non-investment grade fixed income securities selected by AGRI, and AGRI agreed to enter into a total rate of return swap in respect of each security purchased. The aggregate amount received by AGRI under this funding facility agreement, net of the funding fee paid by AGRI, for the years ended December 31, 2003, 2002 and 2001 were approximately \$4.8 million, \$2.8 million and \$0, respectively.

Expense sharing agreements

The Company is party to a number of service agreements with subsidiaries of ACE under which either we provide services to the subsidiaries of ACE, or they provide services to us, including those summarized below.

The Company is party to an intercompany service agreement with ACE Financial Solutions International Ltd. whereby ACE Financial Solutions International provides administrative services, including accounts payable, payroll, human resources and other functions. For the years ended December 31, 2003, 2002 and 2001, the Company incurred expenses of approximately \$0.5 million, \$0.3 million and \$0.2 million, respectively, under these intercompany service agreements.

The Company provides a variety of administrative services to ACE American Insurance Company, ACE Asset Management Inc. and ACE Financial Services, including human resources, legal, data processing, accounting, tax and financial planning. The aggregate fees incurred under these services agreements for the years ended December 31, 2003, 2002 and 2001 were \$3.4 million, \$1.8 million and \$0.3 million, respectively.

In addition to these administrative services agreements, the Company has entered into an employee leasing agreement with an affiliate. Under this agreement, effective in 2001, the Company provides staffing services and is reimbursed for compensation costs. For the years ended December 31, 2003, 2002 and 2001, the Company was reimbursed approximately \$9.6 million, \$6.8 million and \$5.5 million, respectively, under its employee leasing agreement.

The Company also obtains staffing, payroll and related services from ACE INA Services (UK) Ltd. For the years ended 2003 and 2002, the Company incurred \$1.1 million and \$1.0 million in employee related expenses.

The Company is party to an intercompany service agreement, effective in 2001, with ACE Asset Management whereby ACE Asset Management provides investment services such as determining asset allocation and reviewing performance of external investment managers. For the years ended December 31, 2003, 2002 and 2001, the Company incurred expenses of approximately \$0.3 million, \$0.3 million and \$0.4 million, respectively, under this intercompany service agreement.

ACE has historically provided certain general and administrative services to the Company, including tax consulting and preparation services, internal audit services and a liquidity facility line of credit. Allocated expenses included in the Company's financial statements related to these services were \$0.6 million for 2003 and \$0.5 million for each of the years ended December 31, 2002 and 2001.

Non-Cash Capital Contributions

During 2003 and 2002, ACE contributed capital of \$3.7 million and \$84.2 million, respectively to the Company. These were non-cash contributions. In 2003, the \$3.7 million capital contribution was utilized to pay interest on long-term debt. The capital contribution in 2002 was primarily made for the purpose of the repayment of the Company's long-term debt and interest expense of \$75.0 million and \$6.9 million, respectively. See Note 17 for more details. In addition, \$0.3 million of expenses relating to the Company's operations were paid by ACE increasing capital contributions in 2002. All expenses are net of related income taxes.

15. Commitments and Contingencies

The Company and its subsidiaries are party to various lease agreements. As of December 31, 2003, future minimum rental payments under the terms of these operating leases for the office space are

\$3.3 million for each of the years 2004 and 2005, \$3.4 million in 2006, \$3.3 million in 2007 and 2008, and \$3.1 million in aggregate thereafter. These payments are subject to escalations in building operating costs and real estate taxes. Rent expense for the years ended December 31, 2003, 2002 and 2001 was approximately \$3.4 million, \$2.5 million and \$2.3 million, respectively.

On January 18, 2002, World Omni Financial Corp. ("World Omni") filed an action against Assured Guaranty Inc., a subsidiary of AGRO, in the United States District Court for the Southern District of New York entitled *World Omni Financial Corp. v. ACE Capital Re Inc.*, Case no. 02 CV 0476 (RO). On September 20, 2002, World Omni amended its complaint to add AGRO as a defendant. The dispute arises out of a quota share reinsurance agreement between AGRO and JCJ Insurance Company ("JCJ"), an affiliate of World Omni, and an underlying residual value insurance policy issued by JCJ to World Omni, which insured residual value losses of World Omni with respect to a portfolio of automobile leases. Subject to the terms and conditions of the policy, the residual value insurance policy insures World Omni against losses (as defined in the policy) resulting from the value of leased vehicles at the end of the applicable lease term being less than what such value was assumed to have been at the inception of the applicable lease term. In the District Court action, World Omni has sought a declaratory judgment regarding AGRO's coverage obligations, if any, for such alleged losses, as well as damages for breach of contract based upon AGRO's refusal to pay claims asserted by World Omni. World Omni seeks \$157.0 million, which is the limit of liability under the quota share reinsurance agreement, plus interest.

AGRO and Assured Guaranty Inc. have denied World Omni's claims, and intend to contest them vigorously. The parties have submitted a joint motion to the District Court seeking to stay the litigation in favor of arbitration. No formal discovery has been taken.

Through the third quarter of 2003, management believed that a settlement would be the most likely result of the World Omni dispute and loss reserves were based on the expectation of a settlement. As late as July 2003, meetings between the parties still suggested that a settlement was possible. However, subsequent meetings were repeatedly postponed and on November 4, World Omni advised the Company that they were no longer interested in furthering settlement discussions. In response, management decided to pursue arbitration and by late November significant progress was made in regard to agreeing on the terms for arbitration. Also during the fourth quarter, AGRO's reinsurer for the World Omni transaction was downgraded to below investment grade by S&P, Moody's and Fitch.

At December 31, 2003 and 2002, the Company carried a reserve for losses and LAE, net of recoveries, of \$32.2 million and \$10.4 million, respectively, and a net unearned premium reserve of \$4.2 million at December 31, 2002 with respect to the reinsurance agreement with JCJ.

The Company engaged a consulting firm with expertise in auto residual value business to evaluate individual claims made by World Omni. During the fourth quarter of 2003, the Company completed its analysis of the individual claims and increased its reserve for losses and LAE to \$54.2 million, which resulted in a loss of \$17.6 million, net of reinsurance.

Various other lawsuits have arisen 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.

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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. 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.

16. Concentrations

The Company's client base includes all of the major monoline primary financial guaranty insurance companies, many banks and several European insurance and reinsurance companies. No client represented more than 10% of the Company's total gross premiums written for the years ended 2003, 2002 and 2001, except as indicated below. Of the Company's total gross premiums written for the year ended December 31, 2003, 25.3% and 10.8% came from Financial Security Assurance Inc. ("FSA") and Municipal Bond Investors Assurance Company, respectively, two of the four monoline primary financial guaranty insurance companies. For the year ended December 31, 2002, 10.9% came from Dresdner Bank, an investment bank. For the year ended December 31, 2001, 13.0% and 10.3% of gross written premiums came from FSA and Credit Suisse Group, an investment bank, respectively.

17. Long-Term Debt and Credit Facility

The Company's combined financial statements have been adjusted to include long-term debt used to fund the Company's insurance operations, and related interest expense, as described below.

The Company's long-term debt includes \$75.0 million of cumulative monthly income preferred shares issued in 1994 through an affiliate of the Company, Capital Re LLC, a limited liability company organized under the laws of Turks and Caicos Islands. These securities pay monthly dividends at a rate of 7.65% and are mandatorily redeemable in January 2044. Capital Re LLC also has the option to redeem these shares in whole or in part on or after January 31, 1999 at the redemption price of \$25 per share plus accumulated and unpaid dividends. At December 31, 2003 none of the three million outstanding shares were redeemed. Capital Re LLC exists solely for the purpose of issuing preferred and common shares and lending the proceeds to the Company to fund its business operations. The amount paid to preferred shareholders for each of the years ended 2003, 2002 and 2001, was approximately \$5.7 million and is shown on the statement of operations as interest expense.

The Company's long-term debt also consisted of \$75 million of 7.75% debentures, which became due and were paid off in November 2002. During the years ended 2002 and 2001, the Company paid interest expense related to this long-term debt of \$4.9 million and \$5.8 million, respectively.

The Company is party to a non-recourse credit facility with a syndicate of banks, which provides up to \$175 million. This facility is specifically designed to provide rating agency qualified capital to further support the Company's claim paying resources. This agreement expires November 2010.

The Company has entered into the following credit facilities, which are available for general corporate purposes:

- (i) The Company participates in a liquidity facility established for the benefit of ACE and certain of its subsidiaries. The overall facility is a 364-day credit agreement in the amount of \$500 million with a syndicate of banks. The Company has a \$50 million participation in the facility.
- (ii) The Company also participates in a liquidity facility established for the benefit of AGC Guaranty. The overall facility is a 364-day credit agreement in the amount of \$140 million with a syndicate of banks. Under the terms of this liquidity facility the Company may be required to pledge collateral to one of the syndicate banks. If the amount of collateral posted for the benefit of Assured Guaranty Corp.'s CDS counterparties exceeds 11% of Assured Guaranty Corp.'s shareholders' equity, then an amount equal to that excess is required to be pledged to the issuing bank in order to maintain this facility. As of December 31, 2003, the Company did not have any collateral posted under this covenant.
- (iii) The Company has a \$75 million line of credit facility from ACE-INA.
- (iv) The Company has a \$50 million line of credit facility from ACE Bermuda.

As of December 31, 2003, the Company has not drawn any amounts under its credit facilities.

18. Employee Benefit Plans

The "ACE Limited 1999 Replacement Stock Plan" governs the Company's stock options and restricted stock awards. This plan was established in 1999, and permits grants of options, stock appreciation rights, stock units, performance shares, performance units, restricted stock and restricted stock units. Any such award shall be subject to such conditions, restrictions and contingencies as ACE determines. Current vesting provisions for stock options and restricted stock are 3 and 4 years, respectively. As of December 31, 2003, two million Ordinary Shares were available for grant under this plan.

Options

Following is a summary of ACE options issued and outstanding for the years ended December 31, 2003, 2002 and 2001:

	<u>Year of Expiration</u>	<u>Average Exercise Price</u>	<u>Options for Ordinary Shares</u>
Balance as of December 31, 2000			1,644,677
Options granted	2011	\$ 36.30	262,800
Options exercised		\$ 15.55	(280,962)
Options forfeited		\$ 27.89	(12,675)
Balance as of December 31, 2001			1,613,840
Options granted	2012	\$ 43.85	386,500
Options exercised		\$ 16.21	(475,140)
Options forfeited		\$ 31.38	(22,806)
Balance as of December 31, 2002			1,502,394
Options granted	2013	\$ 27.89	317,300
Options exercised		\$ 16.33	(473,905)
Options forfeited		\$ 37.79	(132,969)
Balance as of December 31, 2003			1,212,820

The following table summarizes the range of exercise prices for outstanding options at December 31, 2003:

<u>Range of Exercise Prices</u>	<u>Options outstanding</u>			<u>Options exercisable</u>	
	<u>Number</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
\$11.30 \$15.00	14,228	1.17	\$ 13.92	14,228	\$ 13.92
\$15.00 \$29.99	642,127	7.08	\$ 21.46	372,827	\$ 17.02
\$30.00 \$43.90	556,465	7.75	\$ 40.47	258,310	\$ 39.21
	1,212,820			645,365	

The fair value of ACE 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 2003, 2002, and 2001, respectively: dividend yield of 2.4%, 1.43%, and 1.65%; expected volatility of 32.4%, 35.2%, and 42.8%; risk free interest rate of 2.4%, 4.01%, and 4.84% and an expected life of four years for each year.

Employee Stock Purchase Plan

The Company participates in ACE's Employee Stock Purchase Plan ("ESPP"). Participation in the 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 \$25,000, whichever is less. 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. Pursuant to the provisions of the ESPP, during 2003, 2002, and 2001, employees paid \$0.2 million annually to purchase 9,049, shares, 8,874 shares, and 6,389 shares, respectively.

Restricted Stock Awards

Under ACE's long-term incentive plans, 117,400, 96,500 and 81,100 restricted ACE Ordinary Shares were awarded during the years ended December 31, 2003, 2002 and 2001, respectively, to officers of the Company. These shares vest at various dates through December 2007, 2006 and 2005, respectively.

The following table includes a roll-forward of unearned stock grant compensation:

	Unearned stock grant compensation
	(in thousands of U.S. dollars)
Balance, December 31, 2000	\$ 366
Stock grants awarded in 2001	2,860
Stock grants forfeited in 2001	
Amortization in 2001	(836)
Balance, December 31, 2001	\$ 2,390
Stock grants awarded in 2002	4,375
Stock grants forfeited in 2002	(127)
Amortization in 2002	(1,920)
Balance, December 31, 2002	\$ 4,718
Stock grants awarded in 2003	4,767
Stock grants forfeited in 2003	(1,159)
Amortization in 2003	(2,847)
Balance, December 31, 2003	\$ 5,479

Defined Contribution Plan

The Company maintains a savings incentive plan, which is qualified under Section 401K of the Internal Revenue Code. The savings incentive plan is available to all full-time employees with a minimum of six months of service. Eligible participants may contribute a percentage of their salary subject to a maximum of \$12,000 for 2003. Contributions are matched by the Company at a rate of 100% up to 7% of the participant's compensation subject to certain limitations and vest at a rate of 33.3% per year starting with the second year of service. The Company contributed approximately \$1.3 million in 2003 and \$1.0 million in 2002 and 2001.

Profit Sharing Plan

The Company maintains a profit sharing plan, which is available to all full-time employees with a minimum of six months of service. Annual contributions to the plan are at the discretion of the Board of Directors. The plan contains a qualified portion and a non-qualified portion. Total expense incurred under the plan amounted to approximately \$1.2 million in 2003, \$1.0 million in 2002, and \$1.0 million in 2001.

19. Earnings Per Share

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

	For the years ended December 31,		
	2003	2002	2001
	(in thousands of U.S. dollars except per share amounts)		
Income before cumulative effect of new accounting standard	\$ 214,522	\$ 72,569	\$ 87,917
Cumulative effect of new accounting standard			(24,104)
Net income	\$ 214,522	\$ 72,569	\$ 63,813
Basic shares	75,000	75,000	75,000
Stock options			
Diluted shares	75,000	75,000	75,000
Income before cumulative effect of new accounting standard:			
Basic EPS	\$ 2.86	\$ 0.97	\$ 1.17
Diluted EPS	\$ 2.86	\$ 0.97	\$ 1.17
Cumulative effect of new accounting standard:			
Basic EPS			(0.32)
Diluted EPS			(0.32)
Net Income:			
Basic EPS	\$ 2.86	\$ 0.97	\$ 0.85
Diluted EPS	\$ 2.86	\$ 0.97	\$ 0.85

20. Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments. These determinations were made based on available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop the estimates and therefore, they may not necessarily be indicative of the amount the Company could realize in a current market exchange.

Fixed maturity securities

The fair value for fixed maturity securities shown in Note 9 is based on quoted market prices.

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Cash and short-term investments

The carrying amount reported in the balance sheet for these instruments is cost, which approximates fair value due to the short-term maturity of these instruments.

Unearned premium reserve

The fair value of the Company's unearned premium reserve is based on the estimated cost of entering into a cession of the entire portfolio with third party reinsurers under current market conditions. This figure was determined by using the statutory basis unearned premium reserve, net of deferred acquisition costs.

Long-term debt

The fair value of the Company's \$75 million of mandatorily redeemable preferred securities is based on the closing price per share on the New York Stock Exchange at the year-end date. The fair value of \$75 million of outstanding debentures is determined based on the projected cash flows discounted by the sum of the seven-year U.S. Treasury yield at the year-end date and the appropriate credit spread for the similar debt instruments.

Financial Guaranty Installment premiums

The fair value is derived by calculating the present value of the estimated future cash flow stream discounted at 6.0%.

	As of December 31, 2003		As of December 31, 2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(in thousands of U.S. dollars)				
Assets:				
Fixed maturity securities	\$ 2,052,217	\$ 2,052,217	\$ 1,908,061	\$ 1,908,061
Cash and short-term investments	169,882	169,882	153,791	153,791
Liabilities:				
Unearned premium reserve	625,429	591,585	613,341	580,671
Long-term debt	75,000	76,230	75,000	74,550
Off-Balance Sheet Instruments:				
Financial guaranty installment premiums	\$	\$ 309,812	\$	260,181

21. 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 includes credit support for credit default swaps; (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 trade credit reinsurance, title reinsurance, auto residual value reinsurance and the credit protection of equity layers of CDOs, as well as life, accident and health reinsurance.

The Company's reportable business segments are strategic business units that offer different products and services. They are managed separately since each business requires different marketing strategies and underwriting skill sets.

The Company does not segregate certain assets and liabilities at a segment level since management reviews and controls these assets and liabilities on a consolidated basis. The Company allocates certain operating expenses to each segment by one of two methods. For the financial guaranty direct and financial guaranty reinsurance segments, the Company identifies expenses related to staff that either directly acquire or service the business. The remaining expenses are generally allocated based on the expense ratios produced by the directly allocated expenses of these segments. For the mortgage guaranty and other segments, the Company identifies expenses related to staff that directly acquire business and allocates remaining expenses in proportion to the number of staff allocated directly to each segment. Management uses underwriting gains and losses as the primary measure of each segment's financial performance. The following table summarizes the components of underwriting gain (loss) for each reporting segment:

Year ended December 31, 2003					
	Financial Guaranty Direct	Financial Guaranty Reinsurance	Mortgage	Other	Total
(in millions of U.S. dollars)					
Gross written premiums	\$ 71.2	\$ 168.7	\$ 24.4	\$ 84.9	\$ 349.2
Net written premiums	70.0	162.1	24.4	235.0	491.5
Net earned premiums	70.2	92.9	27.6	120.2	310.9
Loss and loss adjustment expenses	16.3	25.7	(0.7)	103.3	144.6
Profit commission expense		1.5	7.3	1.0	9.8
Acquisition costs	2.8	33.9	5.0	23.2	64.9
Operating expenses	21.6	7.0	4.6	7.9	41.0
Underwriting gain (loss)	\$ 29.5	\$ 24.8	\$ 11.4	\$ (15.2)	\$ 50.5

Year ended December 31, 2002					
	Financial Guaranty Direct	Financial Guaranty Reinsurance	Mortgage	Other	Total
(in millions of U.S. dollars)					
Gross written premiums	\$ 47.4	\$ 84.6	\$ 47.6	\$ 237.6	\$ 417.2
Net written premiums	46.3	82.6	47.6	175.9	352.5
Net earned premiums	43.9	79.3	45.3	78.9	247.4
Loss and loss adjustment expenses	25.4	5.3	8.9	80.6	120.3
Profit commission expense	(0.1)	0.5	8.3	(0.1)	8.6
Acquisition costs	2.4	29.0	8.0	9.0	48.4
Operating expenses	12.5	4.9	3.9	9.7	31.0
Underwriting gain (loss)	\$ 3.6	\$ 39.6	\$ 16.2	\$ (20.3)	\$ 39.2

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Year ended December 31, 2001

	Financial Guaranty Direct	Financial Guaranty Reinsurance	Mortgage	Other	Total
(in millions of U.S. dollars)					
Gross written premiums	\$ 46.0	\$ 70.4	\$ 47.4	\$ 279.1	\$ 442.9
Net written premiums	43.5	68.6	47.6	46.9	206.6
Net earned premiums	30.0	62.2	39.7	161.6	293.5
Loss and loss adjustment expenses	3.0	5.1	6.2	163.2	177.5
Profit commission expense	(0.1)		9.2	(0.1)	9.0
Acquisition costs	0.9	24.7	7.2	18.3	51.1
Operating expenses	9.2	6.4	2.5	11.7	29.8
Underwriting gain (loss)	\$ 17.0	\$ 26.0	\$ 14.6	\$ (31.5)	\$ 26.1

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

	December 31,		
	2003	2002	2001
(in millions of U.S. dollars)			
Total underwriting gain	\$ 50.5	\$ 39.2	\$ 26.1
Net investment income	96.3	97.2	99.5
Net realized investment gains	5.5	7.9	13.1
Unrealized gains (losses) on derivative financial instruments	98.4	(54.2)	(16.3)
Other income	1.2	3.6	2.9
Goodwill amortization			(3.8)
Interest expense	(5.7)	(10.6)	(11.5)
Income before provision for income taxes	\$ 246.2	\$ 83.2	\$ 110.1

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

Net Premiums Earned by Segment and Line of Business	Years ended, December 31,		
	2003	2002	2001
	(in millions of U.S. dollars)		
Financial guaranty direct:			
Financial guaranty direct	\$ 70.2	\$ 43.9	\$ 30.0
Financial guaranty reinsurance:			
Municipal finance	\$ 52.9	\$ 42.7	\$ 31.1
Structured finance	40.0	36.6	31.1
Total	92.9	79.3	62.2
Mortgage guaranty reinsurance:			
Mortgage guaranty reinsurance	\$ 27.6	\$ 45.3	\$ 39.7
Other segment:			
Equity layer credit protection	\$ 61.8	\$ 84.0	\$ 21.0
Trade credit reinsurance	51.2	27.8	23.5
Title reinsurance	10.7	7.3	6.5
Life, accident and health reinsurance		(32.2)	24.6
Auto residual value reinsurance	4.2	2.3	91.3
Affiliate reinsurance	(7.7)	(10.3)	(5.3)
Total	\$ 120.2	\$ 78.9	\$ 161.6

Our other segment consists of certain non-core lines of business that we have stopped, or intend to stop, writing, including equity layer credit protection, trade credit reinsurance, title reinsurance, LA&H reinsurance and auto residual value reinsurance. Also included in the other segment is the impact of the affiliate reinsurance transactions, that were purchased by management for the benefit of all of the Company's reporting segments. The Company does not allocate the cost nor the related benefit of these transactions to the reporting segments but rather records the impact of these transactions in the other segment (See Note 14). The Company manages these exited lines of business by focusing on the net earned premiums and the underwriting gain/(loss). The following table provides underwriting gain/(loss) by line of business for the other segment.

Other Segment	Years Ended, December 31,		
	2003	2002	2001
	(in millions of U.S. dollars)		
Underwriting gain/(loss):			
Equity layer credit protection	\$ (1.0)	\$ (19.7)	\$ (18.4)
Trade credit reinsurance	(3.3)	(0.3)	(0.3)
Title reinsurance	6.8	3.3	1.1
Life accident and health reinsurance	(0.6)	(1.3)	1.2
Auto residual value reinsurance	(24.5)	(8.1)	(10.0)
Affiliate reinsurance	7.4	5.8	(5.1)
Total	\$ (15.2)	\$ (20.3)	\$ (31.5)

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The following table summarizes the Company's gross written premium by geographic region. Allocations have been made on the basis of location of risk.

	Years ended December 31,					
	2003		2002		2001	
	(in millions of U.S. dollars)					
North America	\$ 283.4	81.1%	\$ 369.7	88.6%	\$ 413.2	93.3%
United Kingdom	24.0	6.9	16.5	4.0	16.9	3.8
Europe	36.7	10.5	20.8	5.0	8.4	1.9
Australia	3.2	0.9	7.3	1.8	2.9	0.7
Other	1.9	0.6	2.9	0.7	1.5	0.3
Total	\$ 349.2	100.0%	\$ 417.2	100.0%	\$ 442.8	100.0%

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**SUPPLEMENTAL PRO FORMA CONDENSED COMBINED
FINANCIAL INFORMATION (UNAUDITED)**

As a newly formed company, Assured Guaranty Ltd. has no actual results of operations. In this prospectus, we therefore are presenting pro forma combined financial information with respect to the businesses that ACE will be transferring to us as described under "Formation Transactions," contingent upon the completion of this offering. This pro forma combined financial information is intended to illustrate the performance of our business as if this offering had been completed and we had commenced our operations as of the beginning of the year.

The pro forma adjustments include (a) the estimated incremental operating costs that we will incur as a stand-alone public company, primarily for a holding company executive management team, board of directors' fees, directors' and officers' liability insurance, independent auditors' fees and the cost of changes in vendors or payment terms related to certain services currently provided by ACE, (b) long-term debt included in the historical combined financial statements that will be excluded from the Formation Transactions, and interest thereon, (c) the estimated effects of debt expected to be issued (and related interest expense at 6% per annum) and related return of capital to ACE as described under "Formation Transactions", (d) the incremental cost of separate executive stock option and restricted stock programs, and (e) related U.S. income taxes at 35%, where applicable.

The following table summarizes the pro forma effects on historical combined net income for the year ended December 31, 2003 and on historical combined shareholder's equity as of December 31, 2003.

	Year ended	
	December 31, 2003	As of December 31, 2003
	(in thousands of U.S. dollars)	
Historical combined net income	\$ 214,522	
Historical combined shareholder's equity		\$ 1,437,624
(a) Estimated incremental operating costs	(14,000)	
(b) Long-term debt retained by ACE		75,000
Interest on long-term debt retained by ACE	5,738	
(c) Interest on long-term debt to be issued	(12,000)	
Return of capital to ACE		(200,000)
(d) Stock option and restricted stock programs	(1,606)	(2,830)
(e) Related income tax benefit	4,963	1,831
Pro forma net income	\$ 197,617	
Pro forma shareholder's equity		\$ 1,311,625

**Supplemental Pro Forma Condensed Combined Statement of
Operations of Assured Guaranty Ltd. (Unaudited)**

Year ended December 31, 2003			
	Historical	Adjustments	Pro Forma
	(in thousands of U.S. dollars except per share amounts)		
Revenues	\$ 512,286		\$ 512,286
Expenses			
Other expenses	219,345		219,345
Other operating expenses	41,026 (a)	\$ 14,000	56,632
	(d)	1,606	
Interest expense	5,738 (b)	(5,738)	
	(c)	12,000	12,000
Total expenses	266,109	21,868	287,977
Income before provision for income taxes	246,177	(21,868)	224,309
Total provision for income taxes	31,655 (e)	(4,963)	26,692
Net income	\$ 214,522	\$ (16,905)	\$ 197,617
Earnings Per Share:			
Basic	\$ 2.86	\$ (0.23)	\$ 2.63
Diluted	\$ 2.86	\$ (0.23)	\$ 2.63

See "Notes to Supplemental Pro Forma Condensed Combined Financial Information (Unaudited)."

**Supplemental Pro Forma Condensed Combined Balance Sheet of
Assured Guaranty Ltd. (Unaudited)**

As of December 31, 2003			
	Historical	Adjustments	Pro Forma
	(in thousands of U.S. dollars)		
Assets	\$ 2,857,867 (d)	\$ (2,830)	\$ 2,855,037
Liabilities and shareholder's equity			
Liabilities			
Other liabilities	\$ 1,345,243 (e)	\$ (1,831)	\$ 1,343,412
Long-term debt	75,000 (b)	(75,000)	
	(c)	200,000	200,000
Total liabilities	1,420,243	123,169	1,543,412
Shareholder's equity			
Common stock	16,403 (d)	9	759
	(f)	(15,653)	
Additional paid-in capital	955,490 (b)	75,000	
	(c)	(200,000)	
	(d)	20,852	
	(f)	396,150	1,247,492
Unearned stock grant compensation	(5,479)(d)	(12,332)	(17,811)
Retained earnings	390,025 (f)	(380,497)	
	(d)	(9,528)	
Accumulated other comprehensive income	81,185		81,185
Total shareholder's equity	1,437,624	(125,999)	1,311,625
Total liabilities and shareholder's equity	\$ 2,857,867	\$ (2,830)	\$ 2,855,037

See "Notes to Supplemental Pro Forma Condensed Combined Financial Information (Unaudited)."

**Notes to Supplemental Pro Forma Condensed Combined
Financial Information (Unaudited)**

The following describe amounts included in the "Adjustments" columns:

- (a) *Estimated incremental operating costs* As a stand-alone public company, Assured Guaranty will incur additional operating expenses, including executive compensation, board of directors' fees, directors and officers' liability insurance and independent auditors' fees. In addition, certain services previously provided by ACE at cost may be higher as a stand-alone company.
- (b) *Long-term debt retained by ACE* \$75 million of monthly income preferred securities are included in our historical combined financial statements because the proceeds of such debt were used to fund our operations. However, this debt is excluded from the Formation Transactions and will be retained by ACE. This adjustment is to remove this debt from the balance sheet and interest expense from the statement of operations.
- (c) *Debt to be issued and return of capital to ACE* As described under "Formation Transactions", we will be issuing \$200 million of debt and making a \$200 million return of capital to ACE which is reflected in the pro forma balance sheet. Interest expense on this debt was calculated at 6% per year.
- (d) *Stock options and restricted stock programs* As described under "Management Transition from ACE to Assured Guaranty Plans", upon completion of this offering any unvested ACE options will immediately vest and the value of ACE restricted shares forfeited will be placed into a trust resulting in one-time after-tax charges of \$2.5 million and \$7.0 million, respectively, which are reflected in retained earnings on the pro forma balance sheet but are not reflected on the pro forma statement of operations because they are non-recurring charges. In connection with these events, Assured Guaranty will receive \$5.5 million from ACE for the book value of unrestricted stock grant compensation and Assured Guaranty will contribute \$8.3 million, the value of ACE restricted shares forfeited, into a trust.

Additionally, as described under "Management Transition from ACE to Assured Guaranty Plans", awards of options and restricted shares will be made to certain officers and employees in connection with this offering. The pro forma balance sheet includes \$17.8 million of restricted shares that are expected to be issued to officers and employees upon completion of this offering under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan. The pro forma statement of operations includes an additional \$1.6 million expense, which represents the first-year cost of the Assured restricted share program of \$4.4 million less the \$2.8 million cost of the ACE restricted share program in 2003, and related income taxes of \$0.3 million. The basic and diluted earnings per share calculations are not impacted by the stock options and restricted shares awarded since the stock options will be issued at the initial public offering price and the restricted shares are unvested.
- (e) Related income taxes have been provided at the 35% marginal U.S. corporate tax rate for any pro forma adjustments that will occur in our U.S. subsidiaries. Income tax has not been provided for pro forma adjustments that will occur in our Bermuda holding company or Bermuda subsidiaries.
- (f) As part of the Formation Transactions, 75.9 million shares at \$0.01 par value per share were issued and outstanding. The change in the shares outstanding and par value per share are reflected in this balance sheet adjustment. Also, our historical combined retained earnings will be transferred to additional paid-in-capital in consolidation with the newly formed Assured Guaranty, which will have zero retained earnings at inception.

Through and including _____, 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

49,000,000 Shares

Common Shares

PROSPECTUS
_____, 2004

Banc of America Securities LLC
Goldman, Sachs & Co.

Citigroup

Deutsche Bank Securities
JPMorgan
Merrill Lynch & Co.
UBS Investment Bank
Wachovia Securities
William Blair & Company
Keefe, Bruyette & Woods

PART II**INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The following table sets forth the expenses payable in connection with the issuance and distribution of the common shares being registered hereby. All of such expenses are being paid by the selling shareholders. All of such expenses are estimates, other than the filing and listing fees payable to the Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers, Inc.

Securities and Exchange Commission Filing Fee	\$	145,351
New York Stock Exchange Listing Fee		250,000
National Association of Securities Dealers Filing Fee		30,500
Legal Fees and Expenses		500,000
Printing Expenses		500,000
Accounting Fees and Expenses		2,000,000
Blue Sky Fees and Expenses		10,000
Transfer Agent Fees and Expenses		24,000
Miscellaneous Expenses		40,149
<hr/>		
Total	\$	3,500,000
<hr/>		

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Bye-law 30 of the Registrant's Bye-Laws (to be effective upon the completion of the offering) provides, among other things, that the directors, secretary, other officers (such term to include for purposes of Bye-laws 30 and 31 any person appointed to any committee by the board of directors and any person who is or was serving at the request of the Registrant as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and the resident representative for the time being acting in relation to any of the affairs of the Registrant and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Registrant and every one of them, and their heirs, executors and administrators: (i) shall be indemnified and secured harmless out of the assets of the Registrant from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, and none of them shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Registrant shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Registrant shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, provided that, this indemnity shall not extend to any matter in respect of fraud or dishonesty; (ii) shall not be liable for the acts, receipts, neglects or defaults of any other director or officer or other person, or for any loss or expense incurred by the Registrant through the insufficiency or deficiency of title to any property acquired by the board of directors for or on behalf of the Registrant, or for the insufficiency or deficiency of any security in or upon which any of the monies of the Registrant is invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any monies, securities or effects is deposited, or for any loss occasioned by any error of judgment, omission, default or oversight on his or her part, or for any other loss, damage or misfortune whatever which shall happen in relation to the execution of the duties of his or her office, or in relation thereto, unless the same

happens through fraud or dishonesty on his or her part; and (iii) shall be indemnified out of the assets of the Registrant against all liabilities, losses, costs and expenses which he or she or any of his or her heirs, executors or administrators, incur or may incur or sustain, by or by reason of any act, by such person, or other person or a collective of persons (including without limitation the board of directors) or by the Registrant, done, concurred in or omitted in or about the execution of his, her or their duty, or supposed duty, or in his, her or their respective offices or trusts, in defending or appearing or giving evidence in any proceedings (such term to include, for the purposes of Bye-law 30, threatened proceedings, investigations and enquiries, whether by a regulatory authority, prosecutions authority or otherwise), whether civil or criminal, including where allegations of fraud and dishonesty are made against such director or other person, and, the Registrant shall pay to or on behalf of such director or other person any and all funds associated in defending or appearing or giving evidence in such proceedings (including without limitation independent representation and counseling by an attorney or other professional selected by such director or other person concerned) as and when such liabilities, losses, costs and expenses are incurred, provided that in the event of a finding of fraud or dishonesty (such fraud or dishonesty having been established in a final judgment or decree not subject to appeal), such director or other person shall reimburse to the Registrant all funds paid by the Registrant in respect of liabilities, losses, costs and expenses of defending such proceedings. The provisions of Bye-law 30 (and Bye-law 31) shall apply to, and for the benefit of, any person acting as (or with the reasonable belief that he or she will be appointed or elected as) a director, secretary, other officer, the resident representative, or liquidator or trustee in the reasonable belief that he or she has been so appointed or elected notwithstanding any defect in such appointment or election and to any person who is no longer, but at one time was, a director, secretary, other officer, resident representative or liquidator or trustee of the Registrant.

Bye-law 31 of the Registrant's Bye-Laws (to be effective upon the completion of the offering) provides that the Registrant and each shareholder agree to waive any claim or right of action it might have, whether individually or by or in the right of the Registrant, against any director, secretary, other officer, resident representative or liquidator or trustee of the Registrant on account of any action taken by such director or other such person, or the failure of such director or other such person to take any action in the performance of his or her duties with or for the Registrant, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such director or other such person.

The Companies Act provides that a Bermuda company may indemnify its directors and officers in respect of any loss arising or liability attaching to them as a result of any negligence, default, breach of duty or breach of trust of which they may be guilty. However, the Companies Act also provides that any provision, whether contained in the company's bye-laws or in a contract or arrangement between the company and the director or officers, indemnifying such director or officers against any liability which would attach to him in respect of his fraud or dishonesty will be void.

The Registrant has purchased directors and officers liability insurance policies. Such insurance would be available to the Registrant's directors and officers in accordance with its terms. In addition, certain directors may be covered by directors and officers liability insurance policies purchased by their respective employers.

Reference is made to the form of Underwriting Agreement filed as Exhibit 1.1 hereto for provisions providing that the Underwriters are obligated, under certain circumstances, to indemnify the directors, certain officers and the controlling persons of the Registrant against certain liabilities under the Securities Act of 1933, as amended.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

The Registrant was incorporated as a Bermuda company in August 2003. Following its incorporation, the Registrant issued 12,000 common shares to ACE Limited for U.S.\$12,000. As part of the formation transactions described in the prospectus, ACE will cause one or more of its subsidiaries to transfer to the Registrant of all of the issued and outstanding capital stock of its subsidiaries conducting ACE's financial guaranty business. These issuances did not involve any underwriters, underwriting discounts or commissions or any public offering, and the Registrant believes that each transaction, if deemed to be a sale of a security, was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

- (a)
- Exhibits

Exhibit Number	Description of Document
1.1	Underwriting Agreement**
3.1	Certificate of Incorporation and Memorandum of Association of the Registrant**
3.2	Bye-laws of the Registrant
4.1	Specimen Common Share Certificate**
5.1	Opinion of Conyers Dill & Pearman
10.1	Form of Employment Agreement between Dominic J. Frederico and the Registrant
10.2	Form of Employment Agreement between Michael J. Schozer and the Registrant
10.3	Form of Employment Agreement between Pierre A. Samson and the Registrant
10.4	Form of Employment Agreement between James M. Michener and the Registrant
10.5	Form of Employment Agreement between Robert B. Mills and the Registrant
10.6	[Reserved]
10.7	Form of 2004 Long-Term Incentive Plan**
10.8	Form of Master Separation Agreement
10.9	Form of Transition Services Agreement
10.10	Form of Registration Rights Agreement**
10.11	Form of Tax Allocation Agreement**
10.12	Modification Agreement to Services Agreement with ACE Financial Services Inc.**
10.13	Amended and Restated Services Agreement with ACE American Insurance Company**
10.14	Employee Leasing Agreement with ACE American Insurance Company**
10.15	Services Agreement with ACE Asset Management Inc.**

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Exhibit Number	Description of Document
10.16	Management and Accounting Services Agreement with ACE Financial Solutions International, Ltd.**
10.17	Services Agreement with ACE Financial Solutions International, Ltd. (Japan Branch)**
10.18	Investment Advisory Services Agreement between ACE Asset Management Inc. and Assured Guaranty Corp.**

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- 10.19 Investment Advisory Services Agreement between ACE Asset Management Inc. and Assured Guaranty Re International Ltd.**
- 10.20 Investment Advisory Services Agreement between ACE Asset Management Inc. and Assured Guaranty Mortgage Insurance Company**
- 10.21 Investment Advisory Services Agreement between ACE Asset Management Inc. and ACE Capital Title Reinsurance Company**
- 10.22 Credit Agreement with ABN AMRO Bank NV as Administrative Agent (filed as Exhibit 10.20 to Amendment No. 1)**
- 10.23 Credit Agreement with Deutsche Bank AG, as Agent, as amended (filed as Exhibit 10.21 to Amendment No. 1)**
- 10.24 Form of Credit Agreement with ABN AMRO Incorporated, as Lead Arranger*
- 10.25 [Reserved]
- 10.26 Stock Purchase Agreement between Assured Guaranty Re Overseas Ltd. and ACE Bermuda Insurance Ltd.
- 10.27 Whole Account Excess of Loss Reinsurance Agreement between Assured Guaranty Corp. and ACE Bermuda Insurance Ltd.**
- 10.28 Per Contract Excess of Loss Reinsurance Agreement between Assured Guaranty Re International Ltd. and ACE Bermuda Insurance Ltd.**
- 10.29 Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE American Insurance Company**
- 10.30 Amended and Restated Guaranty by Assured Guaranty Re Overseas Ltd. in favor of ACE Capital Title Reinsurance Company**
- 10.31 Guaranty by Assured Guaranty Re International Ltd. in favor of Assured Guaranty Re Overseas Ltd.**
- 10.32 Guaranty by Assured Guaranty Re Overseas Ltd. in favor of Assured Guaranty Mortgage Insurance Company**
- 10.33 Automobile Residual Value Insurance Policy between ACE Bermuda Insurance Ltd. and Assured Guaranty Re International Ltd.**
- 10.34 Retrocessional Memorandum between ACE Bermuda Insurance Ltd. and Assured Guaranty Re International Ltd.**
- 10.35 Quota Share Reinsurance Agreement between Assured Guaranty Re Overseas Ltd. and JCJ Insurance Company**
- 10.36 Reinsurance Agreement between Westchester Fire Insurance Company and Assured Guaranty Re Overseas Ltd.**
- 10.37 Quota Share Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE INA Overseas Insurance Company Ltd.**
- 10.38 Quota Share Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE American Insurance Company**
- 10.39 Termination Agreement between Assured Guaranty Re Overseas Ltd. and ACE INA Overseas Insurance Company Ltd.**

- 10.40 Amended and Restated Termination Agreement between ACE Bermuda Insurance Ltd. and Assured Guaranty Re International Ltd.**

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- 10.41 Assignment and Indemnification Agreement between Assured Guaranty Re Overseas Ltd. and ACE INA Overseas Insurance Company Ltd.**
- 10.42 Per Policy Excess of Loss Second Retrocession Agreement between Assured Guaranty Re International Ltd. and ACE Bermuda Insurance Ltd.**
- 10.43 Novation and Amendment Agreement between Assured Guaranty Re Overseas Ltd., Assured Guaranty Re International Ltd. and ACE European Markets Insurance Ltd.**
- 10.44 Termination Agreement between ACE European Markets Insurance Ltd. and Assured Guaranty Re Overseas Ltd.**
- 10.45 UK Title Quota Share Reinsurance Agreement between ACE European Markets Insurance Ltd. and Assured Guaranty Re International Ltd.**
- 10.46 UK Title Quota Share Reinsurance Agreement between ACE European Markets Insurance Ltd. and Assured Guaranty Re Overseas Ltd.**
- 10.47 Commutation and Settlement Agreement between ACE Bermuda Insurance Ltd. and Assured Guaranty Corp.**
- 10.48 Commutation and Settlement Agreement between ACE Bermuda Insurance Ltd. and Assured Guaranty Re International Ltd.
- 10.49 Aggregate Loss Portfolio Reinsurance Agreement between Commercial Guaranty Assurance, Ltd. and Assured Guaranty Re Overseas Ltd.**
- 10.50 Form of Quota Share Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE American Insurance Company**
- 10.51 Form of Quota Share Retrocession Agreement between Assured Guaranty Corp. and ACE American Insurance Company**
- 10.52 Form of Quota Share Retrocession Agreement between Assured Guaranty Re Overseas Ltd. and ACE INA Overseas Insurance Company Ltd.**
- 10.53 Form of Commutation Agreement between Assured Guaranty Re Overseas Ltd and Westchester Fire Insurance Company
- 10.54 Form of Quota Share Retrocession Agreement between Assured Guaranty Re International Ltd. and ACE Bermuda Insurance Ltd.**
- 10.55 Form of Assignment and Termination Agreement between Assured Guaranty Re International Ltd., ACE Capital Title Reinsurance Company and ACE Bermuda Insurance Ltd.
- 10.56 Form of Assignment Agreement between Assured Guaranty Re International Ltd., ACE Bermuda Insurance Ltd. and ACE Capital Title Reinsurance Company.**
- 10.57 Form of Assignment and Assumption Agreement among Assured Guaranty Re Overseas Ltd., ACE Capital Title Reinsurance Company and ACE Bermuda Insurance Ltd. of Amended and Restated Guaranty by Assured Guaranty Re Overseas Ltd. in favor of ACE Capital Title Reinsurance Company**
- 10.58 Assured Guaranty Ltd. Replacement Award Plan
- 10.59 Assured Guaranty Ltd. Supplemental Trust
- 21.1 Subsidiaries of the registrant**
- 23.1 Consent of PricewaterhouseCoopers LLP

23.2 Consent of Conyers Dill & Pearman (included as part of Exhibit 5.1)

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- 23.3 Consent of Mayer, Brown, Rowe & Maw LLP**
 - 23.4 Consent of Fitzwilliam, Stone & Alcazar**
 - 24.1 Power of Attorney of Donald Kramer**
 - 24.2 Power of Attorney of Brian Duperreault**
 - 24.3 Power of Attorney of Evan G. Greenberg**
 - 99.1 Consent of G. Lawrence Buhl**
 - 99.2 Consent of Stephen A. Cozen**
 - 99.3 Consent of John G. Heimann**
 - 99.4 Consent of Patrick Kenny**
 - 99.5 Consent of Walter A. Scott**
 - 99.6 Consent of Neil Baron**
 - 99.7 Form F-N
 - 99.8 Audit Committee Charter**
 - 99.9 Compensation Committee Charter**
 - 99.10 Nomination and Governance Committee Charter**
 - 99.11 Finance and Investment Committee Charter**
-

*

To be filed by amendment.

**

Previously filed.

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such

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securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 4 Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Hamilton, Bermuda, on the 22th day of April, 2004.

ASSURED GUARANTY LTD.

By: /s/ DOMINIC J. FREDERICO

Name: Dominic J. Frederico
Title: *President and Chief Executive Officer*

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 4 has been signed by the following persons in the capacities indicated on the dates indicated.

Name	Position	Date
*		
<u>Donald Kramer</u>	Chairman of the Board; Director	April 22, 2004
<u>/s/ DOMINIC J. FREDERICO</u>	President and Chief Executive Officer; Director	April 22, 2004
<u>Dominic J. Frederico</u>		
<u>/s/ ROBERT MILLS</u>	Chief Financial Officer (Principal Financial and Accounting Officer)	April 22, 2004
<u>Robert Mills</u>		
*		
<u>Brian Duperreault</u>	Director	April 22, 2004
*		
<u>Evan G. Greenberg</u>	Director	April 22, 2004
<u>/s/ DOMINIC J. FREDERICO</u>	Authorized representative in the United States	April 22, 2004
<u>Dominic J. Frederico</u>		

*

Robert Mills, by signing his name hereto, does hereby sign on behalf of each of the above-named directors of the Registrant pursuant to powers of attorney duly executed by such persons.

*By: /s/ ROBERT MILLS

Robert Mills
Attorney-in-Fact

**Report of Independent Auditors on
Financial Statement Schedules**

To the Board of Directors and Shareholder of AGC Holdings Limited:

Our audits of the combined financial statements referred to in our report dated February 25, 2003 appearing in the S-1 of Assured Guaranty Ltd. also included an audit of the accompanying financial statement schedules listed in Item 16 of this Form S-1. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related combined financial statements.

PricewaterhouseCoopers LLP
New York, NY
February 25, 2003

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Schedule III Supplementary Insurance Information (in millions of U.S. dollars)

For the Year Ended December 31, 2003

As of December 31, 2003

	DAC	UPR	Loss reserves	Premiums written	Premiums earned	Loss Expenses	Net Investment Income	Acquisition Costs	Other Operating Expenses
Direct Financial Guaranty	1.2	29.5	29.9	71.2	70.2	16.3	11.8	2.8	21.6
Financial Guaranty Reinsurance	157.3	407.7	72.8	168.7	92.9	25.7	44.1	33.9	7.0
Mortgage	6.4	55.1	24.1	24.4	27.6	(0.7)	11.4	5.0	4.6
Other	13.8	133.1	395.7	84.9	120.2	103.4	29.0	23.2	7.9
Total	178.7	625.4	522.6	349.2	310.9	144.6	96.3	64.9	41.0

As of December 31, 2002

For the Year Ended December 31, 2002

Direct Financial Guaranty	0.7	12.7	26.0	47.4	43.9	25.4	7.3	2.4	12.5
Financial Guaranty Reinsurance	135.7	327.6	47.2	84.6	79.3	5.3	45.1	29.0	4.9
Mortgage	6.3	75.6	28.7	47.6	45.3	8.9	19.2	8.0	3.9
Other	14.6	197.4	356.9	237.6	78.9	80.6	25.6	9.0	9.7
Total	157.3	613.3	458.8	417.2	247.4	120.3	97.2	48.4	31.0

As of December 31, 2001

For the Year Ended December 31, 2001

Direct Financial Guaranty	0.4	9.2	8.9	46.0	30.0	3.1	8.9	0.9	9.2
Financial Guaranty Reinsurance	134.1	323.1	65.3	70.4	62.2	5.0	46.5	24.7	6.4
Mortgage	6.0	75.9	31.4	47.4	39.7	6.1	22.6	7.2	2.5
Other	13.7	92.1	295.4	279.0	161.6	163.2	21.5	18.3	11.7
Total	154.2	500.3	401.1	442.9	293.5	177.5	99.5	51.1	29.8

Schedule IV Reinsurance

Net Earned Premiums (in millions of U.S. dollars):

Type of Business:	Direct	Ceded	Assumed	Net	Percentage of assumed to net
For the years Ended December 31, 2003					
Financial Guaranty	\$ 133.8	\$ 9.8	\$ 100.8	\$ 224.8	55.8%
Mortgage	0.0	0.4	28.0	27.6	101.5%
Title		0.3	11.0	10.7	103.2%
Life		4.5	4.4	(0.0)	
Other	0.1	11.3	59.1	47.9	123.2%
	\$ 133.9	\$ 26.3	\$ 203.3	\$ 310.9	73.3%
For the years Ended December 31, 2002					
Financial Guaranty	\$ 129.6	\$ 18.5	\$ 96.2	\$ 207.3	46.4%
Mortgage		1.2	46.5	45.3	102.7%
Title		0.2	7.5	7.3	102.8%
Life		23.9	(8.3)	(32.2)	25.7%
Other		12.8	32.6	19.8	164.9%
	\$ 129.6	\$ 56.7	\$ 174.6	\$ 247.4	70.5%
For the years Ended December 31, 2001					
Financial Guaranty	\$ 51.5	\$ 6.1	\$ 140.6	\$ 185.9	75.6%
Mortgage		3.6	43.3	39.8	108.9%
Title		0.2	6.6	6.5	102.5%
Life		1.0	25.6	24.6	104.2%
Other	0.9	82.7	118.5	36.8	322.3%
	\$ 52.4	\$ 93.6	\$ 334.7	\$ 293.5	114.0%

Schedule V Valuation and Qualifying Accounts (in millions)

Valuation and qualifying accounts for the years ended December 31, 2003, 2002 and 2001 are as follows:

		Balance at beginning of year	Charged to expense/Deduction	Balance at end of year
	Valuation allowance	7.0		7.0
	Allowance for Uncollectible Reinsurance		21.1	21.1
2003	Total	7.0	21.1	28.1
2002	Valuation allowance	7.0		7.0
2001	Valuation allowance	7.0		7.0

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amounts)

Assured Guaranty Ltd. Combined Statements of Shareholder's Equity For the years ended December 31, 2003, 2002, and 2001 (in thousands of U.S. dollars)

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