ASSURED GUARANTY LTD
Form 10-Q
November 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2008

OR

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

transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

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

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(address of principal executive office)

(441) 299-9375

(Registrants telephone number, including area code)

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

YES x NO o

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

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

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

The number of registrant s Common Shares ($0.01 par value) outstanding as of October 31, 2008 was 90,949,662.

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ASSURED GUARANTY LTD.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Assured Guaranty Ltd.

Consolidated Balance Sheets

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

(Unaudited)

	September 30, 2008	December 31, 2007
Assets		
Fixed maturity securities, at fair value (amortized cost: $3,273,225 in 2008 and $2,526,889 in 2007)	$ 3,160,606	$ 2,586,954
Short-term investments, at cost which approximates fair value	370,071	552,938
Total investments	**3,530,677**	**3,139,892**
Cash and cash equivalents	7,864	8,048
Accrued investment income	36,393	26,503
Deferred acquisition costs	292,121	259,298
Prepaid reinsurance premiums	19,934	13,530
Reinsurance recoverable on ceded losses	6,074	8,849
Premiums receivable	51,866	27,802
Goodwill	85,417	85,417
Credit derivative assets	179,979	5,474
Deferred income taxes	82,317	147,563
Current income taxes receivable	19,297	
Salvage recoverable	38,035	8,540
Committed capital securities, at fair value	32,635	8,316
Receivables for securities sold	38,086	2,864
Other assets	21,989	20,838
Total assets	**$ 4,442,684**	**$ 3,762,934**
Liabilities and shareholders equity		
Liabilities		
Unearned premium reserves	$ 1,231,842	$ 887,171
Reserves for losses and loss adjustment expenses	165,943	125,550
Profit commissions payable	8,984	22,332
Reinsurance balances payable	9,890	3,276
Current income taxes payable		635
Funds held by Company under reinsurance contracts	29,490	25,354
Credit derivative liabilities	465,942	623,118
Senior Notes	197,434	197,408
Series A Enhanced Junior Subordinated Debentures	149,760	149,738
Payables for securities purchased	21,893	899
Other liabilities	71,558	60,883
Total liabilities	**2,352,736**	**2,096,364**
Commitments and contingencies		
Shareholders equity		
Common stock ($0.01 par value, 500,000,000 shares authorized; 90,948,625 and 79,948,979 shares issued and outstanding in 2008 and 2007)	909	799
Additional paid-in capital	1,281,958	1,023,886
Retained earnings	885,978	585,256
Accumulated other comprehensive (loss) income	(78,897)	56,629
Total shareholders equity	**2,089,948**	**1,666,570**
Total liabilities and shareholders equity	**$ 4,442,684**	**$ 3,762,934**

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

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Assured Guaranty Ltd.

Consolidated Statements of Operations and Comprehensive Income

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

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues				
Gross written premiums	$ 112,815	$ 68,487	$ 534,393	$ 195,411
Ceded premiums	(1,328)	(8,069)	(12,545)	(15,138)
Net written premiums	111,487	60,418	521,848	180,273
Increase in net unearned premium reserves	(25,971)	(21,810)	(337,814)	(66,631)
Net earned premiums	**85,516**	**38,608**	**184,034**	**113,642**
Net investment income	43,441	31,846	120,247	94,188
Net realized investment losses	(20,031)	(119)	(17,951)	(1,938)
Change in fair value of credit derivatives				
Realized gains and other settlements on credit derivatives	29,960	17,751	89,370	52,116
Unrealized (losses) gains on credit derivatives	(116,247)	(222,738)	332,634	(250,929)
Net change in fair value of credit derivatives	(86,287)	(204,987)	422,004	(198,813)
Other income	7,171	370	24,756	370
Total revenues	**29,810**	**(134,282)**	**733,090**	**7,449**
Expenses				
Loss and loss adjustment expenses (recoveries)	82,542	1,990	175,805	(11,791)
Profit commission expense	(1,444)	1,140	758	3,622
Acquisition costs	19,296	10,390	43,004	32,116
Other operating expenses	21,609	19,853	69,912	59,387
Interest expense	5,821	5,856	17,462	17,709
Other expense	1,524	620	3,974	1,872
Total expenses	**129,348**	**39,849**	**310,915**	**102,915**
(Loss) income before (benefit) provision for income taxes	(99,538)	(174,131)	422,175	(95,466)
(Benefit) provision for income taxes				
Current	(13,092)	2,666	4,233	7,789
Deferred	(23,106)	(61,839)	105,275	(60,053)
Total (benefit) provision for income taxes	**(36,198)**	**(59,173)**	**109,508**	**(52,264)**
Net (loss) income	**(63,340)**	**(114,958)**	**312,667**	**(43,202)**
Other comprehensive (loss) income, net of taxes				
Unrealized holding (losses) gains on fixed maturity securities arising during the year	(104,137)	25,241	(150,323)	(9,302)
Reclassification adjustment for realized losses included in net (loss) income	17,146	243	15,857	1,732
Change in net unrealized (losses) gains on fixed maturity securities	(86,991)	25,484	(134,466)	(7,570)
Change in cumulative translation adjustment	(645)	204	(746)	589
Cash flow hedge	(105)	(105)	(314)	(314)
Other comprehensive (loss) income, net of taxes	**(87,741)**	**25,583**	**(135,526)**	**(7,295)**
Comprehensive (loss) income	**$ (151,081)**	**$ (89,375)**	**$ 177,141**	**$ (50,497)**
(Loss) earnings per share:				
Basic	$ (0.70)	$ (1.70)	$ 3.59	$ (0.64)

Diluted	$	(0.70)	$	(1.70)	$	3.55	$	(0.64)
Dividends per share	$	0.045	$	0.04	$	0.135	$	0.12

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

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Assured Guaranty Ltd.

Consolidated Statements of Shareholders Equity

For Nine Months Ended September 30, 2008

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

(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2007	**$ 799**	**$ 1,023,886**	**$ 585,256**	**$ 56,629**	**$ 1,666,570**
Net income			312,667		312,667
Dividends ($0.135 per share)			(11,892)		(11,892)
Dividends on restricted stock units		53	(53)		
Common stock issuance, net of offering costs	107	248,948			249,055
Shares cancelled to pay withholding taxes	(2)	(4,433)			(4,435)
Stock options exercises		342			342
Tax benefit for stock options exercised		16			16
Shares issued under ESPP		377			377
Share-based compensation and other	5	12,769			12,774
Change in cash flow hedge, net of tax of $(169)				(314)	(314)
Change in cumulative translation adjustment				(746)	(746)
Unrealized loss on fixed maturity securities, net of tax of $(38,218)				(134,466)	(134,466)
Balance, September 30, 2008	**$ 909**	**$ 1,281,958**	**$ 885,978**	**$ (78,897)**	**$ 2,089,948**

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

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating activities		
Net income (loss)	$ 312,667	$ (43,202)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Non-cash interest and operating expenses	13,647	16,892
Net amortization of premium on fixed maturity securities	2,400	2,281
Provision (benefit) for deferred income taxes	105,275	(60,053)
Net realized investment losses	17,951	1,938
Unrealized (gains) losses on credit derivatives	(351,535)	247,902
Fair value gain on committed capital securities	(24,319)	
Change in deferred acquisition costs	(32,823)	(10,484)
Change in accrued investment income	(9,890)	(1,488)
Change in premiums receivable	(24,064)	4,992
Change in prepaid reinsurance premiums	(6,404)	(9,430)
Change in unearned premium reserves	344,671	76,349
Change in reserves for losses and loss adjustment expenses, net	20,287	(2,262)
Change in profit commissions payable	(13,348)	(16,811)
Change in funds held by Company under reinsurance contracts	4,136	3,585
Change in current income taxes	(19,916)	(2,606)
Tax benefit for stock options exercised	(16)	(142)
Other changes in credit derivatives assets and liabilities, net	19,854	677
Other	11,348	(20,770)
Net cash flows provided by operating activities	**369,921**	**187,368**
Investing activities		
Fixed maturity securities:		
Purchases	(1,196,917)	(785,252)
Sales	401,854	626,955
Maturities	6,350	23,224
Sales (purchases) of short-term investments, net	185,690	(17,842)
Net cash flows used in investing activities	**(603,023)**	**(152,915)**
Financing activities		
Net proceeds from common stock issuance	248,971	
Dividends paid	(11,892)	(8,279)
Share activity under option and incentive plans	(3,664)	(2,508)
Tax benefit for stock options exercised	16	142
Debt issue costs		(425)
Repurchases of common stock		(3,748)
Net cash flows provided by (used in) financing activities	**233,431**	**(14,818)**
Effect of exchange rate changes	(513)	802
(Decrease) increase in cash and cash equivalents	(184)	20,437

Cash and cash equivalents at beginning of period		8,048		4,785
Cash and cash equivalents at end of period	**$**	**7,864**	**$**	**25,222**
Supplementary cash flow information				
Cash paid during the period for:				
Income taxes	$	20,700	$	20,551
Interest	$	11,800	$	11,877

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

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Assured Guaranty Ltd.
Notes to Consolidated Financial Statements

September 30, 2008

(Unaudited)

1. Business and Organization

Assured Guaranty Ltd. (the Company) is a Bermuda-based holding company which provides, through its operating subsidiaries, credit enhancement products to the public finance, structured finance and mortgage markets. Credit enhancement products are financial guarantees or other types of support, including credit derivatives, that improve the credit of underlying debt obligations. The Company issues policies in both financial guaranty and credit derivative form. Assured Guaranty Ltd. applies its credit expertise, risk management skills and capital markets experience to develop insurance, reinsurance and derivative products that meet the credit enhancement needs of its customers. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more insurance policies that the ceding company has issued. A derivative is a financial instrument whose characteristics and value depend upon the characteristics and value of an underlying security. Assured Guaranty Ltd. markets its products directly to and through financial institutions, serving the U.S. and international markets. Assured Guaranty Ltd. s financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. These segments are further discussed in Note 13.

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

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

The Company has participated in several lines of business that are reflected in its historical financial statements but that the Company exited in connection with its 2004 initial public offering (IPO). The results from these lines of business are included in the Company s Other segment discussed in Note 13.

On April 8, 2008, investment funds managed by WL Ross & Co. LLC (WL Ross) purchased 10,651,896 shares of the Company s common equity at a price of $23.47 per share, resulting in proceeds to the Company of $250.0 million. The Company contributed $150.0 million of these proceeds to its Bermuda domiciled reinsurance subsidiary, Assured Guaranty Re Ltd. (AG Re). In addition, the Company contributed $100.0 million of these proceeds to its subsidiary, Assured Guaranty US Holdings Inc., which in turn contributed the same amount to its Maryland domiciled insurance subsidiary, Assured Guaranty Corp. (AGC). The commitment to purchase these shares was previously announced on February 29, 2008. In addition, Wilbur L. Ross, Jr., President and Chief Executive Officer of WL Ross, was appointed to the Board of Directors of the Company to serve a term expiring at the Company s 2009 annual general meeting of shareholders. Mr. Ross s appointment became effective immediately following the Company s 2008 annual general meeting of shareholders, which was held on May 8, 2008. WL Ross has a remaining commitment through April 8, 2009 to purchase up to $750.0 million of the Company s common equity, at the Company s option, subject to the terms and conditions of the investment agreement with the Company

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dated February 28, 2008. In accordance with the investment agreement, the Company may exercise this option in one or more drawdowns, subject to a minimum drawdown of $50 million, provided that the purchase price per common share for the subsequent shares is not greater than 17.5% above, or less than 17.5% below, the price per common share for the initial shares. The purchase price per common share for such shares will be equal to 97% of the volume weighted average price of a common share on the NYSE for the 15 NYSE trading days prior to the applicable drawdown notice. As of September 30, 2008, and as of the date of this filing, the purchase price per common share is outside of this range and therefore the Company may not, at this time, exercise its option for WL Ross to purchase additional shares. Additionally, in accordance with the investment agreement, at this time the ratings of the Company s operating subsidiaries, AGC and AG Re, are not stable (See Note 16) and therefore the Company may not exercise its option for WL Ross to purchase additional shares.

On September 16, 2008, the Company agreed to waive the standstill provisions of the investment agreement to permit investment funds managed by WL Ross (the WL Ross Funds) to purchase up to 5,000,000 additional common shares of the Company in open market transactions from time to time. The timing and amount of any such purchases are in the sole discretion of WL Ross and they are not obligated to purchase any such shares. The additional shares purchased by the WL Ross Funds, if any, will be purchased from current shareholders and therefore will not result in an increase in shareholders equity at the Company or its subsidiaries. If all 5,000,000 additional shares were purchased, the WL Ross Funds would beneficially own 17,166,396 shares or approximately 18.9% of the Company s outstanding common shares based on shares outstanding as of September 30, 2008. As of the date of this filing, the Company has not been notified that WL Ross Funds purchased any additional shares of the Company.

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

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

On July 21, 2008, Moody s Investors Service (Moody s) placed under review for possible downgrade the Aaa insurance financial strength ratings of Assured Guaranty Corp. and its wholly owned subsidiary, Assured Guaranty (UK) Ltd., as well as the Aa2 insurance financial strength ratings of Assured Guaranty Re Ltd. and its affiliated insurance operating companies. Moody s has also placed under review for possible downgrade the Aa3 senior unsecured rating of parent company, Assured Guaranty US Holdings Inc. and the Aa3 issuer rating of the ultimate holding company, Assured Guaranty Ltd. The timing and outcome of the Moody s review are uncertain. (See Note 16). As of the date of this filing, the Company s rating outlook is categorized as stable from both S&P and Fitch.

2. Basis of Presentation

The unaudited interim consolidated financial statements, which include the accounts of the Company, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments, which are of a normal recurring nature, necessary for a fair statement of the Company s financial condition, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These unaudited interim consolidated financial statements cover the three-month period ended September 30, 2008 (Third Quarter

2008), the three-month period ended September 30, 2007 (Third Quarter 2007), the nine-month period ended September 30, 2008 (Nine Months 2008) and the nine-month period ended September 30, 2007 (Nine Months 2007). Operating results for the three- and nine-month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for a full year. These unaudited interim consolidated financial statements should be read in

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conjunction with the Company s consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission.

Certain of the Company s subsidiaries are subject to U.S. and U.K. income tax. The provision for income taxes is calculated in accordance with Statement of Financial Accounting Standards (FAS) FAS No. 109, Accounting for Income Taxes . The Company s provision for income taxes for interim financial periods is not based on an estimated annual effective rate due to the variability in changes in fair value of its credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pre-tax income for the full year of 2008. A discrete calculation of the provision is calculated for each interim period.

Reclassifications

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

Effective with the quarter ended March 31, 2008, the Company reclassified the revenues, expenses and balance sheet items associated with financial guaranty contracts that the Company s financial guaranty subsidiaries write in the form of credit default swap (CDS) contracts. The reclassification does not change the Company s net income (loss) or shareholders equity. This reclassification is being adopted by the Company after agreement with member companies of the Association of Financial Guaranty Insurers in consultation with the staffs of the Office of the Chief Accountant and the Division of Corporate Finance of the Securities and Exchange Commission. The reclassification is being implemented in order to increase comparability of the Company s financial statements with other financial guaranty companies that have CDS contracts.

In general, the Company structures credit derivative transactions such that the method for making loss payments is similar to that for financial guaranty policies and generally occurs as losses are realized on the underlying reference obligation. Nonetheless, credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. (ISDA) documentation and operates differently from financial guaranty insurance policies. Under GAAP CDS contracts are subject to derivative accounting rules and financial guaranty policies are subject to insurance accounting rules.

In the accompanying unaudited interim consolidated statements of operations and comprehensive income, the Company has reclassified previously reported CDS revenues from net earned premiums to realized gains and other settlements on credit derivatives. Loss and loss adjustment expenses and recoveries that were previously included in loss and loss adjustment expenses (recoveries) have been reclassified to realized gains and other settlements on credit derivatives, as well. Portfolio and case loss and loss adjustment expenses have been reclassified from loss and loss adjustment expenses (recoveries) and are included in unrealized gains (losses) on credit derivatives, which previously included only unrealized mark to market gains or losses on the Company s contracts written in CDS form. In the consolidated balance sheet, the Company reclassified all CDS-related balances previously included in unearned premium reserves, reserves for losses and loss adjustment expenses, prepaid reinsurance premiums, premiums receivable and reinsurance balances payable to either credit derivative liabilities or cred derivative assets, depending on the net position of the CDS contract at each balance sheet date.

The effects of these reclassifications on the Company s consolidated statements of operations and comprehensive income and cash flows for the three and nine months ended September 30, 2007 are as follows (dollars in thousands):

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	Three Months Ended September 30, 2007	
	As previously reported	As reclassified
Gross written premiums	$ 89,347	$ 68,487
Ceded premiums	(9,037)	(8,069)
Net written premiums	80,310	60,418
Increase in unearned premium reserves	(24,073)	(21,810)
Net earned premiums	56,237	38,608
Realized gains and other settlements on credit derivatives		17,751
Unrealized losses on derivative financial instruments	(220,965)	
Unrealized losses on credit derivatives		(222,738)
Loss and loss adjustment expenses (recoveries)	3,734	1,990
Acquisition costs	10,297	10,390
Net loss	(114,958)	(114,958)

	Nine Months Ended September 30, 2007	
	As previously reported	As reclassified
Gross written premiums	$ 250,717	$ 195,411
Ceded premiums	(17,096)	(15,138)
Net written premiums	233,621	180,273
Increase in unearned premium reserves	(69,273)	(66,631)
Net earned premiums	164,348	113,642
Realized gains and other settlements on credit derivatives		52,116
Unrealized losses on derivative financial instruments	(247,902)	
Unrealized losses on credit derivatives		(250,929)
Loss and loss adjustment expenses (recoveries)	(10,096)	(11,791)
Acquisition costs	32,038	32,116
Net loss	(43,202)	(43,202)

	Nine Months Ended September 30, 2007	
	As previously reported	As reclassified
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in unrealized losses on derivative financial instruments	$ 247,902	$
Unrealized losses on credit derivatives		247,902
Other changes in credit derivative assets and liabilities, net		677
Change in premiums receivable	508	4,992
Change in prepaid reinsurance premiums	(9,926)	(9,430)
Change in unearned premium reserves	79,487	76,349
Change in reserves for losses and loss adjustment expenses, net	257	(2,262)
Net cash provided by operating activities	187,368	187,368

These adjustments had no impact on net income (loss), comprehensive income (loss), earnings (loss) per share, cash flows or total shareholders equity.

3. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and

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expands disclosures about fair value measurements. FAS 157 applies to other accounting pronouncements that require or permit fair value measurements, since the FASB had previously concluded in those accounting pronouncements that fair value is the relevant measure. Accordingly, FAS 157 does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted FAS 157 effective January 1, 2008. See Note 14.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Liabilities (FAS 159). FAS 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, FAS 159 specifies that all subsequent changes in fair value for that instrument shall be reported in the Statement of Operations and Comprehensive Income. FAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company adopted FAS 159 effective January 1, 2008. The Company did not apply the fair value option to any eligible items on its adoption date.

In April 2007, the FASB Staff issued FASB Staff Position No. FIN 39-1, Amendment of FASB Interpretation No. 39 (FSP FIN 39-1), which permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 did not affect the Company s results of operations or financial position.

In March 2008, the FASB issued FAS No. 161, Disclosures About Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 (FAS 161). FAS 161 establishes the disclosure requirements for derivative instruments and for hedging activities. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. FAS 161 is not expected to have an impact on the Company s current results of operations or financial position.

In May 2008, the FASB issued FAS No. 163, Accounting for Financial Guarantee Insurance Contracts An Interpretation of FASB Statement No. 60 (FAS 163). FAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. FAS 163 also clarifies the methodology to be used for financial guaranty premium revenue recognition and claim liability measurement, as well as requiring expanded disclosures about the insurance enterprise s risk management activities. The provisions of FAS 163 related to premium revenue recognition and claim liability measurement are effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. Earlier application of these provisions is not permitted. The expanded risk management activity disclosure provisions of FAS 163 are effective for the third quarter of 2008 and are included in Note 6 of these financial statements. FAS 163 will be applied to all existing and future financial guaranty insurance contracts written by the Company. The cumulative effect of initially applying FAS 163 will be recorded as an adjustment to retained earnings as of January 1, 2009. The adoption of FAS 163 is expected to have a material effect on the Company s financial statements. The Company is in the process of estimating the impact of its adoption of FAS 163. The Company will continue to follow its existing accounting policies in regards to premium revenue recognition and claim liability measurement until it adopts FAS 163 on January 1, 2009.

In June 2008, the FASB issued FSP EITF 03-6-1, Participating Securities and the Two-Class Method under FASB Statement No. 128 (FSP). The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share (EPS) under the two-class method described in FAS No. 128, Earnings per Share. The FSP requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. The FSP is effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. This FSP also requires that all prior period EPS data be adjusted retrospectively. The Company does not expect adoption of the FSP to have a material effect on its results of operations or earnings per share.

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On October 10, 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarified the application of FAS 157, Fair Value Measurements , in a market that is not active. FSP 157-3 was effective when issued. It did not have an impact on the Company s current results of operations or financial position.

The FASB adopted FSP FAS 133-1, Disclosures About Credit Derivatives and Certain Guarantees and FAS 161, Disclosures about Derivative Instruments and Hedging Activities to address concerns that current derivative disclosure requirements did not adequately address the potential adverse effects that these instruments can have on the financial performance and operations of an entity. Companies will be required to provide enhanced disclosures about their derivative activities to enable users to better understand: (1) how and why a company uses derivatives, (2) how it accounts for derivatives and related hedged items, and (3) how derivatives affect its financial statements. These should include the terms of the derivatives, collateral posting requirements and triggers, and other significant provisions that could be detrimental to earnings or liquidity. Disclosures specific to credit derivatives must be included in the December 31, 2008 financial statements. Certain other derivative and hedging disclosures must be included in the Company s March 31, 2009 Form 10-Q. Management believes that the Company s current derivatives disclosures are in compliance with the items required by FSP 133-1 and FAS 161.

4. Credit Derivatives

Credit derivatives issued by the Company, principally in the form of CDS contracts, have been deemed to meet the definition of a derivative under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), FAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (FAS 149) and FAS No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155). FAS 133, FAS 149 and FAS 155 (which the Company adopted on January 1, 2007) establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. FAS 133 and FAS 149 require that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a fair value, cash flow or foreign currency hedge. FAS 155 requires companies to recognize freestanding or embedded derivatives relating to beneficial interests in securitized financial instruments. This recognition was not required prior to January 1, 2007. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company had no derivatives that were designated as hedges during 2008 and 2007.

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

The following table disaggregates realized gains and other settlements on credit derivatives into its component parts for the three- and nine-month periods ended September 30, 2008 and 2007 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Realized gains and other settlements on credit derivatives				

Net credit derivative premiums received and receivable	$ 30,545	$ 17,629	$ 89,853	$ 50,706
Net credit derivative losses recovered and recoverable	30	29	410	1,332
Ceding commissions (paid/payable) received/receivable, net	(615)	93	(893)	78
Total realized gains and other settlements on credit derivatives	$ 29,960	$ 17,751	$ 89,370	$ 52,116

Unrealized gains (losses) on credit derivatives represent the adjustments for changes in fair value that are

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

The Company determines fair value of its credit derivative contracts primarily through modeling that uses various inputs such as credit spreads, based on observable market indices and on recent pricing for similar contracts, and expected contractual life to derive an estimate of the value of our contracts in our principal market (see Note 14). Credit spreads captures the impact of performance of underlying assets, among other factors, on these contracts. The Company s pricing model takes into account not only how credit spreads on risks that it assumes affects pricing, but how the Company s own credit spread affects the pricing of its deals. If credit spreads of the underlying obligations change, the fair value of the related credit derivative changes. Market liquidity could also impact valuations of the underlying obligations.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and other market conditions at the time these fair values are determined. In addition, since each transaction has unique collateral and structure terms, the underlying change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts also reflects the change in the Company s own credit cost based on the price to purchase credit protection on AGC. During Third Quarter 2008 and Nine Months 2008, the Company incurred net pre-tax mark-to-market losses on credit derivative contracts of $(116.2) million and gains of $332.6 million, respectively. The Third Quarter loss includes a gain of $668.0 million associated with the change in AGC s credit spread, which widened substantially from 900 basis points at June 30, 2008 to 1,255 basis points at September 30, 2008. Management believes that the widening of AGC s credit spread is due to the correlation between AGC s risk profile and that experienced currently by the broader financial markets. Offsetting the gain attributable to the significant increase in AGC s credit spread were declines in fixed income security market prices primarily attributable to widening spreads in certain markets as a result of the continued deterioration in credit markets and some credit rating downgrades, rather than from delinquencies or defaults on securities guaranteed by the Company. The higher credit spreads in the fixed income security market are due to the recent lack of liquidity in the high yield collateralized debt obligation and collateralized loan obligation markets as well as continuing market concerns over the most recent vintages of subprime residential mortgage backed securities.

The total notional amount of credit derivative exposure outstanding as of September 30, 2008 and December 31, 2007 and included in the Company s financial guaranty exposure was $77.6 billion and $71.6 billion, respectively.

The components of the Company s unrealized gain (loss) on credit derivatives as of September 30, 2008 are:

Asset Type	Net Par Outstanding (in billions)	Wtd. Avg. Credit Rating	3Q-08 Unrealized Gain (Loss) (in millions)	9 mos. 2008 Unrealized Gain (Loss) (in millions)
Corporate collateralized loan obligations	$ 26.6	AAA	$ (3.7)	$ 292.1
Market value CDOs of corporates	3.7	AAA	0.7	46.0
Trust preferred securities	6.3	AAA	11.4	69.8
Total pooled corporate obligations	**36.6**	**AAA**	**8.4**	**408.0**
Commercial mortgage-backed securities	5.9	AAA	0.7	79.3
Residential mortgage-backed securities	21.3	AA	(99.8)	60.8

Other		10.6	AA+		(31.1)		(201.1)
Total	**$**	**74.4**	**AA+**	**$**	**(121.8)**	**$**	**347.0**
Reinsurance exposures written in CDS form		3.2	AA+		5.6		(14.4)
Grand Total	**$**	**77.6**	**AA+**	**$**	**(116.2)**	**$**	**332.6**

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

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

The Company s $10.6 billion exposure to Other CDS contracts is also highly diversified. It includes $5.0 billion of exposure to four pooled infrastructure deals comprised of diversified pools of international infrastructure project transactions and loans to regulated utilities. These pools were all structured with underlying enhancement sufficient for the Company to attach at super senior AAA levels. The remaining $5.6 billion of exposure in Other CDS contracts is comprised of numerous deals typically structured with significant underlying enhancement and spread across various asset classes, such as commercial receivables, infrastructure, regulated utilities and consumer receivables. Substantially all of this $10.6 billion of exposure is rated investment grade and the weighted average credit rating is AA+.

The Company s exposure to the mortgage industry is discussed in Note 6.

The unrealized loss of $(31.1) million for the Third Quarter in the Other asset type is mainly due to widening spreads for a pooled infrastructure transaction and a wrapped film securitization transaction. The unrealized loss of $(201.1) million for Nine Months ended September 30, 2008 is primarily attributable to a change in the call date assumption and widening of spreads for a pooled infrastructure transaction during the Second Quarter 2008, that resulted in a unrealized loss of $(100.4) million, and a ratings downgrade on a wrapped film securitization transaction, that resulted in an unrealized loss of $(48.2) million. Other also includes management s estimate of credit related impairments for the Company s credit derivative exposures of $10.1 million and $18.9 million for the Third Quarter and Nine Months ended September 30, 2008, respectively. With considerable volatility continuing in the market, the fair value adjustment amount may fluctuate significantly in future periods.

The following table presents additional details about the Company s unrealized gain on pooled corporate obligation credit derivatives, which includes collateralized loan obligations, market value CDOs and trust preferred securities, by asset type as of September 30, 2008:

Asset Type	**Original Subordination(2)**	**Current Subordination(2)**	**Net Par Outstanding (in billions)**	**Weighted Average Credit Rating(1)**	**3Q-08 Unrealized Gain (Loss) (in millions)**	**9 mos. 2008 Unrealized Gain (Loss) (in millions)**
High yield corporates	36.3%	34.3%	$ 23.5	AAA	$ (3.7)	$ 278.0
Trust preferred	46.2%	43.2%	6.3	AAA	11.4	69.8
Market value CDOs of corporates	41.6%	37.5%	3.7	AAA	0.7	46.0
Investment grade corporates	28.7%	29.6%	2.3	AAA	(0.6)	6.2

Commercial real estate	49.0%	48.9%		0.8	AAA		0.1		7.5
CDO of CDOs (corporate)	1.7%	5.1%		0.1	AAA		0.5		0.4
Total	**38.2%**	**36.1%**	**$**	**36.6**	**AAA**	**$**	**8.4**	**$**	**408.0**

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

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

The following table presents additional details about the Company s unrealized gain on credit derivatives associated with commercial mortgage-backed securities by vintage as of September 30, 2008:

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Vintage	Original Subordination(2)	Current Subordination(2)	Net Par Outstanding (in billions)	Weighted Average Credit Rating(1)	3Q-08 Unrealized Gain (Loss) (in millions)	9 mos. 2008 Unrealized Gain (Loss) (in millions)
2004 and Prior	19.7%	22.1%	$ 0.3	AAA	$ 0.5	$ 5.5
2005	27.6%	28.6%	3.4	AAA	0.4	50.9
2006	27.2%	27.8%	2.0	AAA	(0.1)	20.6
2007	35.8%	35.9%	0.2	AAA	(0.1)	2.4
2008						
Total	**27.4%**	**28.3%**	**$ 5.9**	**AAA**	**$ 0.7**	**$ 79.3**

The following tables present additional details about the Company s unrealized gain on credit derivatives associated with residential mortgage-backed securities by vintage and asset type as of September 30, 2008:

	Original Subordination(2)	Current Subordination(2)	Net Par Outstanding (in billions)	Weighted Average Credit Rating(1)	3Q-08 Unrealized Gain (Loss) (in millions)	9 mos. 2008 Unrealized Gain (Loss) (in millions)
2004 and Prior	5.2%	13.0%	$ 0.5	A+	$ (2.5)	$ (8.8)
2005	24.1%	48.7%	5.2	AA+	(7.2)	71.4
2006	16.1%	22.6%	6.2	AA+	(12.5)	131.5
2007	16.4%	18.4%	9.5	AA	(77.5)	(133.3)
2008						
Total	**17.9%**	**26.9%**	**$ 21.3**	**AA**	**$ (99.8)**	**$ 60.8**

Asset Type	Original Subordination(2)	Current Subordination(2)	Net Par Outstanding (in billions)	Weighted Average Credit Rating(1)	3Q-08 Unrealized Gain (Loss) (in millions)	9 mos. 2008 Unrealized Gain (Loss) (in millions)
Alt-A loans	20.4%	23.5%	$ 6.6	AA-	$ (100.3)	$ (167.6)
Prime first liens	10.4%	12.2%	9.0	AAA	0.6	25.8
Subprime first liens	26.9%	53.9%	5.7	AA-	(0.1)	202.6
Total	**17.9%**	**26.9%**	**$ 21.3**	**AA**	**$ (99.8)**	**$ 60.8**

In general, the Company structures credit derivative transactions such that the method for making loss payments is similar to that for financial guaranty policies and generally occurs as losses are realized on the underlying reference obligation. Nonetheless, credit derivative transactions are governed by ISDA documentation and operates differently from financial guaranty insurance policies. For example, the Company s control rights with respect to a reference obligation under a credit derivative may be more limited than when the Company issues a financial guaranty insurance policy. In addition, while the Company s exposure under credit derivatives, like the Company s exposure under financial guaranty insurance policies, have been generally for as long as the reference obligation remains outstanding, unlike financial guaranty policies, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events. In some older credit derivative transactions, one such specified event is the failure of AGC to maintain specified financial strength ratings ranging from AA- to BBB-. If a credit derivative is terminated the Company could be required to make a mark-to-market payment as determined under the ISDA documentation. For example, if AGC s rating were downgraded to A+, under market conditions at September 30, 2008, if the counterparties exercised their right to terminate their credit derivatives, AGC would have been required make payments that, under the Company s mark-to-market methodology, was estimated to be approximately $42 million. Further, if AGC s rating was downgraded to levels between BBB+ and BB+ it would have been required to make additional payments that, under the Company s mark-to-market methodology, was estimated to be approximately $207 million at September 30, 2008. As of September 30, 2008 the Company had pre-IPO transactions with approximately $1.3 billion of par subject to collateral posting due to changes in market value. In the event AGC were downgraded from AAA to Aa2, with respect to certain of its credit derivative contracts, the amount of par subject to collateral posting requirements would increase to $1.5 billion from $1.2 billion as a result of certain collateral posting thresholds being lowered. In the event AGC were downgraded below A-, the maximum amount of par subject to collateral posting requirements would be $2.4 billion. However, at current fair market value amounts, AGC would not have to pledge additional collateral for the benefit of its counterparties. In October and November 2008, the Company posted collateral totaling approximately $68.5 million based on the unrealized mark-to-market loss position for transactions with two of its counterparties. Under current market conditions we do not anticipate a material increase in the amount posted. Currently no additional collateral posting is required or anticipated for any other transactions.

As of September 30, 2008 and December 31, 2007, the Company considered the impact of its own credit risk, in combination with credit spreads on risk that it assumes through CDS contracts, in determining the fair value of its credit derivatives. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date. The quoted price of CDS contracts traded on the Company at September 30, 2008 and

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December 31, 2007 was 1,255 basis points and 180 basis points, respectively. Historically, the price of CDS traded on the Company generally moves directionally the same as general market spreads. Generally, a widening of the CDS prices traded on the Company has an effect of offsetting unrealized losses that result from widening general market credit spreads, while a narrowing of the CDS prices traded on the Company has an effect of offsetting unrealized gains that result from narrowing general market credit spreads. An overall narrowing of spreads generally results in an unrealized gain on credit derivatives for the Company and an overall widening of spreads generally results in an unrealized loss for the Company.

The following table summarizes the estimated change in fair values on the net balance of the Company s credit derivative positions assuming immediate parallel shifts in credit spreads at September 30, 2008:

(Dollars in millions)

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax)	Estimated Pre-Tax Change in Gain / (Loss)
September 30, 2008:		
100% widening in spreads	$ (974.8)	$ (705.4)
50% widening in spreads	(625.5)	(356.1)
25% widening in spreads	(449.0)	(179.6)
10% widening in spreads	(340.6)	(71.2)
Base Scenario	(269.4)	
10% narrowing in spreads	(213.2)	56.2
25% narrowing in spreads	(133.1)	136.3
50% narrowing in spreads	(4.8)	264.6

(1) Includes the effects of spreads on both the underlying asset classes and the Company s own credit spread.

5. Investments

The following table summarizes the Company s aggregate investment portfolio as of September 30, 2008:

	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	$ 433,179	$ 16,841	$ (1,915)	$ 448,105
Obligations of state and political subdivisions	1,243,642	19,436	(62,797)	1,200,281
Corporate securities	280,568	1,205	(31,295)	250,478
Mortgage-backed securities	1,163,175	5,368	(58,219)	1,110,324
Asset-backed securities	89,500	15	(2,341)	87,174
Foreign government securities	50,536	1,556	(59)	52,033

Preferred stock		12,625				(414)		12,211
Total fixed maturity securities		3,273,225		44,421		(157,040)		3,160,606
Short-term investments		370,071						370,071
Total investments	$	3,643,296	$	44,421	$	(157,040)	$	3,530,677

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The following table summarizes the Company s aggregate investment portfolio as of December 31, 2007:

	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	$ 297,445	$ 13,524	$ (17)	$ 310,952
Obligations of state and political subdivisions	1,043,000	38,612	(2,773)	1,078,839
Corporate securities	179,369	4,759	(1,368)	182,760
Mortgage-backed securities	859,666	9,882	(4,686)	864,862
Asset-backed securities	68,148	341	(82)	68,407
Foreign government securities	71,386	1,694	(18)	73,062
Preferred stock	7,875	197		8,072
Total fixed maturity securities	2,526,889	69,009	(8,944)	2,586,954
Short-term investments	552,938			552,938
Total investments	$ 3,079,827	$ 69,009	$ (8,944)	$ 3,139,892

Approximately 31% and 28% of the Company s total investment portfolio as of September 30, 2008 and December 31, 2007, respectively, was composed of mortgage-backed securities, including collateralized mortgage obligations and commercial mortgage-backed securities. As of September 30, 2008 and December 31, 2007, respectively, approximately 66% and 55% of the Company s total mortgage-backed securities were government agency obligations. As of both September 30, 2008 and December 31, 2007, the weighted average credit quality of the Company s entire investment portfolio was AA+ and AAA, respectively. The Company s portfolio is comprised primarily of high-quality, liquid instruments. We continue to receive sufficient information to value our investments and have not had to modify our approach due to the current market conditions.

Under agreements with cedants and in accordance with statutory requirements, the Company maintains fixed maturity securities in trust accounts for the benefit of reinsured companies and for the protection of policyholders, generally in states where the Company or its subsidiaries, as applicable, are not licensed or accredited. The carrying value of such restricted balances as of September 30, 2008 and December 31, 2007 was $1,019.0 million and $936.0 million, respectively.

The Company has 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;
- 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 the Company believes a decline in the value of a particular investment is temporary, it records the decline as an unrealized loss, net of tax, on the balance sheet in accumulated other comprehensive income in shareholders equity. If the Company believes the decline is other than temporary, it writes down the carrying value of the investment and records a realized loss in the statement of operations. The Company s 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.

A focus of management s assessment is the evaluation of securities that have been in an unrealized loss position for 12-months or more. Management considers the nature of the investment, the cause for the impairment (interest or credit related), the severity (both as a percentage of book value and absolute dollars) and duration of the impairment and any other available evidence, such as discussions with investment advisors, volatility of the securities fair value and recent news reports when performing its assessment.

As of September 30, 2008, the Company s gross unrealized loss position stood at $157.0 million compared to $50.5 million at June 30, 2008. The $106.5 million increase in gross unrealized losses is primarily attributable to municipal securities, $46.3 million, mortgage and asset-backed securities, $37.7 million, and corporate securities, $21.5 million. The increase in these unrealized losses during the three months ended September 30, 2008 is related to the overall illiquidity in the financial markets and resulted in a sudden and severe depressed demand for non-cash investments.

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As of September 30, 2008, the Company had 102 securities in an unrealized loss position for greater than 12 months, representing a gross unrealized loss of $35.3 million. Of these securities, 51 securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of September 30, 2008 was $26.9 million. The aggregate amount of unrealized loss for these 51 bonds over the past 12 months has varied between $4.1 million and $14.3 million, until September when the unrealized loss increased to $26.9 million. This increase in unrealized losses during the quarter is attributable to the market illiquidity and volatility in the U.S. economy mentioned above and not specific to individual issuer credit. Except as noted below, the Company has recognized no other than temporary impairment losses and has the ability and intent to hold these securities until a recovery in value.

The Company recognized $18.5 million of other than temporary impairment losses related to corporate securities for the three- and nine-month periods ended September 30, 2008. The Company continues to monitor the value of these investments. Future events may result in further impairment of the Company s investments. The Company had no write downs of investments for other than temporary impairment losses for the three- and nine-month periods ended September 30, 2007.

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 Position	As of September 30, 2008 Estimated Fair Value	As of September 30, 2008 Gross Unrealized Losses	As of December 31, 2007 Estimated Fair Value	As of December 31, 2007 Gross Unrealized Losses
		($ in millions)		
Municipal securities				
0-6 months	$ 429.3	$ (24.3)	$ 67.2	$ (0.6)
7-12 months	208.7	(23.1)	123.0	(1.9)
Greater than 12 months	109.3	(15.4)	8.6	(0.3)
	747.3	(62.8)	198.8	(2.8)
Corporate securities				
0-6 months	180.0	(23.8)	13.6	(0.3)
7-12 months	21.6	(2.1)	22.2	(0.8)
Greater than 12 months	16.2	(5.4)	12.8	(0.3)
	217.8	(31.3)	48.6	(1.4)
U.S. Government obligations				
0-6 months	138.5	(1.9)	25.4	
7-12 months				
Greater than 12 months				
	138.5	(1.9)	25.4	
Mortgage and asset-backed securities				
0-6 months	541.6	(23.5)	37.7	(0.4)
7-12 months	148.3	(22.6)	32.0	(0.3)
Greater than 12 months	153.1	(14.5)	254.4	(4.0)
	843.0	(60.6)	324.1	(4.7)
Preferred stock				
0-6 months	12.2	(0.4)		
7-12 months				
Greater than 12 months				

		12.2		(0.4)				
Total	$	1,958.8	$	(157.0)	$	596.9	$	(8.9)

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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 September 30, 2008 Estimated Fair Value	As of September 30, 2008 Gross Unrealized Losses	As of December 31, 2007 Estimated Fair Value	As of December 31, 2007 Gross Unrealized Losses
	($ in millions)			
Municipal securities				
Due in one year or less	$	$	$	$
Due after one year through five years				
Due after five years through ten years	66.2	(2.6)	1.9	(0.1)
Due after ten years	681.1	(60.2)	196.9	(2.7)
	747.3	(62.8)	198.8	(2.8)
Corporate securities				
Due in one year or less	8.6	(0.1)	7.2	
Due after one year through five years	67.6	(3.3)	16.1	(0.3)
Due after five years through ten years	107.0	(22.0)	12.0	(0.2)
Due after ten years	34.6	(5.9)	13.3	(0.9)
	217.8	(31.3)	48.6	(1.4)
U.S. Government obligations				
Due in one year or less	8.0			
Due after one year through five years	21.2	(0.4)	25.4	
Due after five years through ten years	103.6	(1.5)		
Due after ten years	5.7			
	138.5	(1.9)	25.4	
Mortgage and asset-backed securities	843.0	(60.6)	324.1	(4.7)
Preferred stock	12.2	(0.4)		
Total	$ 1,958.8	$ (157.0)	$ 596.9	$ (8.9)

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The following table summarizes, for all securities sold at a loss through September 30, 2008 and 2007, 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:

	Three Months Ended September 30,			
	2008		2007	
Length of Time in Continuous Unrealized Loss Prior to Sale	Estimated Fair Value	Gross Realized Losses	Estimated Fair Value	Gross Realized Losses
	($ in millions)			
Municipal securities				
0-6 months	$	$	$	$
7-12 months				
Greater than 12 months				
Corporate securities(1)				
0-6 months	3.4	(6.0)	10.4	
7-12 months	0.6	(7.1)	12.2	
Greater than 12 months	0.8	(5.5)	9.0	(0.2)
	4.8	(18.6)	31.6	(0.2)
U.S. Government securities				
0-6 months			1.0	(0.1)
7-12 months			0.8	
Greater than 12 months			0.7	
			2.5	(0.1)
Mortgage and asset-backed securities				
0-6 months	21.2		41.2	(0.5)
7-12 months				
Greater than 12 months				
	21.2		41.2	(0.5)
Preferred stock				
0-6 months	0.2	(2.8)		
7-12 months				
Greater than 12 months				
	0.2	(2.8)		
Total	$ 26.2	$ (21.4)	$ 75.3	$ (0.8)

(1) Includes other than temporary impairment losses of $18.5 million.

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Length of Time in Continuous Unrealized Loss Prior to Sale	Nine Months Ended September 30, 2008 Estimated Fair Value	2008 Gross Realized Losses	2007 Estimated Fair Value	2007 Gross Realized Losses
	($ in millions)			
Municipal securities				
0-6 months	$ 2.5	$ (0.3)	$ 44.9	$ (0.2)
7-12 months				
Greater than 12 months				
	2.5	(0.3)	44.9	(0.2)
Corporate securities(1)				
0-6 months	4.9	(6.0)	11.0	
7-12 months	2.7	(7.1)	12.2	
Greater than 12 months	0.8	(5.5)	16.4	(0.3)
	8.4	(18.6)	39.6	(0.3)
U.S. Government securities				
0-6 months			25.0	(0.5)
7-12 months			0.8	
Greater than 12 months			17.7	(0.2)
			43.5	(0.7)
Mortgage and asset-backed securities				
0-6 months	72.9	(0.5)	77.6	(0.6)
7-12 months	1.2			
Greater than 12 months	5.4	(0.1)	77.6	(1.2)
	79.5	(0.6)	155.2	(1.8)
Preferred stock				
0-6 months	4.8	(3.1)		
7-12 months				
Greater than 12 months				
	4.8	(3.1)		
Total	$ 95.2	$ (22.6)	$ 283.2	$ (3.0)

(1) Includes other than temporary impairment losses of $18.5 million.

6. Significant Risk Management Activities

The Risk Oversight and Audit Committees of the Board of Directors oversees our risk management policies and procedures. Within the limits established by the board committees, specific risk policies and limits are set by the Portfolio Risk Management Committee, which includes members of senior management and senior Credit and Surveillance officers. As part of its risk management strategy, the Company may seek to obtain third party reinsurance or retrocessions and may also periodically enter into other arrangements to alleviate all or a portion of this risk.

Risk Management and Surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio, including exposures in both the Direct and Reinsurance segments. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and take such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are risk rated, and surveillance personnel are responsible for adjusting those ratings to reflect changes in transaction credit quality. Surveillance personnel are also responsible for managing work-out and loss situations when necessary. For transactions where a loss is considered probable, surveillance personnel make recommendations on case loss reserves to a reserve committee. The reserve committee is made up of the Chief Executive Officer, Chief Financial Officer, Chief Surveillance Officer, General Counsel and Chief Accounting Officer. The reserve committee considers the recommendations of the surveillance personnel when reviewing reserve recommendations of our operating subsidiaries.

Direct Businesses

We conduct surveillance procedures to track risk aggregations and monitor performance of each risk. The review cycle and scope vary based upon transaction type and credit quality. In general, the review process includes the collection and analysis of information from various sources, including trustee and servicer reports, financial statements and reports, general industry or sector news and analyses, and rating agency reports. For Public Finance risks, the surveillance process includes monitoring general economic trends, developments with respect to state and municipal finances, and the financial situation of the issuers. For Structured Finance transactions, the surveillance process can include monitoring transaction performance data and cash flows, compliance with transaction terms and conditions, and evaluation of servicer or collateral manager performance and financial condition. Additionally, the Company uses various quantitative tools and models to assess transaction performance and identify situations where there may have been a change in credit quality. For all transactions, surveillance activities may include discussions with or site visits to issuers, servicers or other parties to a transaction.

Reinsurance Businesses

For transactions in the Company s Reinsurance segment, the primary insurers are responsible for conducting ongoing surveillance, and our surveillance personnel monitor the activities of the primary insurers through a variety of means, such as review of surveillance reports provided by the primary insurers, and meetings and discussions with their analysts. Our surveillance 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 reviews of ceding companies surveillance activities and capabilities. That process may include the review of the primary insurer s underwriting, surveillance, and claim files for certain transactions. In the event of credit deterioration of a particular exposure, more frequent reviews of the ceding company s risk mitigation activities are conducted. Our surveillance personnel also monitor general news and information, industry trends, and rating agency reports to help focus surveillance activities on sectors or credits of particular concern. For certain exposures, we also will undertake an independent analysis and remodeling of the transaction.

Closely Monitored Credits

The Company s surveillance department is responsible for monitoring our portfolio of credits and maintains a list of closely monitored credits (CMC). The closely monitored credits are divided into four categories:

- Category 1 (low priority; fundamentally sound, greater than normal risk);
- Category 2 (medium priority; weakening credit profile, may result in loss);
- Category 3 (high priority; claim/default probable, case reserve established);
- Category 4 (claim paid, case reserve established for future payments).

The closely monitored credits include all below investment grade (BIG) exposures where there is a material amount of exposure (generally greater than $10.0 million) or a material risk of the Company incurring a loss greater than $0.5 million. The closely monitored credits also include investment grade (IG) risks where credit quality is deteriorating and where, in the view of the Company, there is significant potential that the risk quality will fall below investment grade. As of September 30, 2008, the closely monitored credits include approximately 99% of our

BIG

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exposure, and the remaining BIG exposure of $43.5 million is distributed across 66 different credits. Other than those excluded BIG credits, credits that are not included in the closely monitored credit list are categorized as fundamentally sound risks.

The following table provides financial guaranty net par outstanding by credit monitoring category as of September 30, 2008 (dollars in millions):

	Closely Monitored Credit Categories				
	Category 1	**Category 2**	**Category 3**	**Category 4**	**Total**
Number of policies	50	48	93	4	195
Remaining weighted-average contract period (in years)	23.5	19.1	7.7	8.9	15.2
Insured contractual payments outstanding:					
Principal	$ 1,056.8	$ 1,323.4	$ 1,874.8	$ 20.4	$ 4,275.4
Interest	1,009.3	386.5	743.5	6.0	2,145.3
Total	$ 2,066.1	$ 1,709.9	$ 2,618.3	$ 26.4	$ 6,420.7
Gross reserves for loss and loss adjustment expenses	$	$	$ 89.5	$ 23.7	$ 113.1
Less:					
Gross potential recoveries			(34.3)	(2.3)	(36.6)
Discount, net			5.5		5.5
Net reserves for loss and loss adjustement expenses	$	$	$ 60.6	$ 21.4	$ 82.0
Reinsurance recoverables	$	$	$	$	$

The Company s loss adjustment expenses for mitigating claim liabilities were $0.3 million and $0.6 million for the Third Quarter 2008 and Nine Months 2008, respectively.

In accordance with FAS 163, the above table includes financial guaranty contracts written in insurance form. It does not include financial guaranty contracts written in CDS form, mortgage guaranty insurance or the Company s other lines of insurance.

The Company insures various types of residential mortgage-backed securitizations (RMBS). Such transactions may include obligations backed by closed-end first mortgage loans and closed and open-end second mortgage loans or home equity loans on one-to-four family residential properties, including condominiums and cooperative apartments. A RMBS transaction where the underlying collateral is comprised of revolving home equity lines of credit is generally referred to as a HELOC transaction. In general, the collateral supporting HELOC securitizations are second lien loans made to prime borrowers. As of September 30, 2008, the Company had net par outstanding of $1.9 billion related to HELOC securitizations, of which $1.3 billion were written in the Company s financial guaranty direct segment. As of September 30, 2008, the Company had net par outstanding of $1.7 billion for transactions with Countrywide, of which $1.2 billion were written in the Company s financial guaranty direct segment (direct Countrywide transactions or Countrywide 2005-J and Countrywide 2007-D).

The performance of the Company s HELOC exposures deteriorated during 2007 and the first nine months of 2008 and transactions, particularly those originated in the period from 2005 through 2007, continue to perform below the Company s original underwriting expectations. In accordance with its standard practice, during Third Quarter 2008 and Nine Months 2008, the Company evaluated the most currently available information, including trends in delinquencies, charge-offs on the underlying loans and draw rates on the lines of credit. The key assumptions used in our analysis of potential case loss reserves on the direct Countrywide transactions are presented in the following table:

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Key Variables	
Constant payment rate (CPR)	10%
Constant default rate (CDR)	6-month average CDR of approximately 18% during months 1-6, declining to 2.5% at the end of month 12. From months 13 onward, a 2.5% CDR is assumed.
Draw rate	2%
Excess spread	250 bps per annum
Repurchases of Ineligible loans by Countrywide	$26.6 million; or approximately 1% of original pool balance of $2.4 billion
Loss Severity	100%

In recent periods, performance patterns on these transactions have stabilized, with CDR, CPR, Draw Rates and delinquency percentages fluctuating within what we believe to be a relatively narrow band. Accordingly, the Company is using modeling assumptions that are based upon or which approximate actual historical performance to project future performance and potential losses. During the Third Quarter 2008, the Company extended the time frame during which it expects the CDR to decline to a stabilized 2.5% rate. This revision was based upon management s judgment that a variety of factors including the deterioration of U.S. economic conditions could lead to a longer period in which default rates remain high. The Company continues to model sensitivities around the results booked using a variety of CDR rates and stress periods as well as other modeling approaches including roll rates and hybrid roll rate/CDR methods.

As a result of this modeling and analysis, the Company incurred loss and loss adjustment expenses of $52.3 million for its direct Countrywide transactions during Third Quarter 2008. The Company s cumulative incurred loss and loss adjustment expenses on the direct Countrywide transactions as of September 30, 2008 were $94.5 million ($75.1 million after-tax).

During Third Quarter 2008, certain of the Company s other HELOC transactions in the financial guaranty direct segment experienced increases in delinquencies and collateral losses. Incurred loss and loss adjustment expenses for these other HELOC transactions were $5.5 million during the Third Quarter 2008. Additionally, during Third Quarter 2008, the Company incurred loss and loss adjustment expenses of $17.8 million related to its assumed HELOC exposures in its financial guaranty reinsurance segment.

For Nine Months 2008, the Company incurred loss and loss adjustment expenses of $133.9 million for its HELOC exposures. Of this amount, $108.3 million related to the Company s financial guaranty direct segment, including $94.5 million of incurred loss and loss adjustment expenses for the direct Countrywide transactions. The remaining $25.6 million of incurred loss and loss adjustment expenses related to the Company s assumed HELOC exposures in its financial guaranty reinsurance segment.

The ultimate performance of the Company s HELOC transactions will depend on many factors, such as the level and timing of loan defaults, interest proceeds generated by the securitized loans, repayment speeds and changes in home prices, as well as the levels of credit support built into each transaction. Other factors also may have a material impact upon the ultimate performance of each transaction, including the ability of the seller and servicer to fulfill all of their contractual obligations including its obligation to fund future draws on lines of credit, as well as the amount of benefit received from repurchases of ineligible loans by Countrywide. The variables affecting transaction performance are interrelated, difficult to predict and subject to considerable volatility. As of September 30, 2008, the Company had total incurred loss and loss adjustment expenses of $94.5 million for these two HELOC transactions. If actual results differ materially from any of the Company s assumptions, the losses incurred could be materially different from the Company s estimate. The Company continues to update its evaluation of these exposures as new information becomes available.

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A summary of the Company s exposure to these two deals and their actual performance statistics through September 30, 2008 are as follows:

($ in millions)

	Countrywide 2005J	Countrywide 2007D
Original principal balance	$ 1,500	$ 900
Remaining principal balance	$ 560.5	$ 663.7
Cumulative losses (% of original principal balance)(1)	8.6%	10.8%
Total delinquencies (% of current balance)(2)	15.4%	10.7%
Average intital FICO score of borrowers(3)	709	712
Interest margin over prime(4)	2.0%	1.8%
Revolving period(5)	10	10
Repayment period(6)	15	15
Average draw rate(7)	2.2%	2.5%
Average constant payment rate(8)	10.1%	10.0%
Excess spread(9)	240 bps	242 bps

(1) Cumulative collateral losses expressed as a percentage of the original deal balance.

(2) Total delinquencies (loans >30 days past due) as a percentage of the current deal balance.

(3) Fair Isaacs and Company score is a measurement designed to indicate the credit quality of a borrower

(4) Floating rate charged to borrowers above the prime rate.

(5) Time period (usually 5-10 years) in which the borrower may draw funds from their HELOC.

(6) Time period (usually 10-20years) in which the borrower must repay the funds withdrawn from the HELOC.

(7) Represents the three-month average draw rate as of September 2008.

(8) Represent the three-month average constant payment rate as of September 2008.

(9) Excess spread during September 2008.

Another type of RMBS transaction is generally referred to as Subprime RMBS . The collateral supporting such transactions is comprised of first-lien residential mortgage loans made to subprime borrowers. A subprime borrower is one considered to be a higher risk credit based on credit scores or other risk characteristics. As of September 30, 2008, the Company had net par outstanding of $6.7 billion related to Subprime RMBS securitizations. Of that amount, $6.1 billion is from transactions issued in the period from 2005 through 2007 and written in the Company s financial guaranty direct segment. The majority of the Company s Subprime RMBS exposure is rated triple-A by all major rating agencies, and by the Company, at September 30, 2008. As of September 30, 2008, the Company had portfolio reserves of $7.4 million and case reserves of $5.0 million related to its $6.7 billion U.S. Subprime RMBS exposure, of which $6.0 million were portfolio reserves related to its $6.1 billion exposure in the financial guaranty direct segment for transactions issued from 2005 through 2007.

The problems affecting the subprime mortgage market have been widely reported, with rising delinquencies, defaults and foreclosures negatively impacting the performance of Subprime RMBS transactions. Those concerns relate primarily to Subprime RMBS issued in the period from 2005 through 2007. The $6.1 billion exposure that the Company has to such transactions in its financial guaranty direct segment benefits from various structural protections, including credit enhancement that on average currently equals approximately 53.9% of the remaining principal balance of the transactions.

The Company also has exposure of $450.8 million to Closed-End Second (CES) RMBS transactions, of which $441.9 million is in the direct segment. As with other types of RMBS, the Company has seen significant deterioration in the performance of two of its CES transactions, which had exposure of $195.0 million, during the nine months ended September 30, 2008. Specifically, during the Second Quarter 2008, one transaction in the financial guaranty direct segment experienced a significant increase in delinquencies and collateral losses, which resulted in erosion of the Company s credit enhancement. Based on the Company s analysis of the transaction and its projected losses, the Company had case reserves of $14.4 million for this transaction as of September 30, 2008. Additionally, as of September 30, 2008, the Company had portfolio reserves of $6.2 million in its financial guaranty direct segment and case and portfolio reserves of $0.1 million and $0.7 million, respectively, in its financial guaranty reinsurance segment related to its U.S. Closed-End Second RMBS exposure.

Another type of RMBS transaction is generally referred to as Alt-A RMBS . The collateral supporting such transactions is comprised of first-lien residential mortgage loans made to high-quality borrowers that lack certain

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ancillary characteristics that would make them prime. As of September 30, 2008, the Company had net par outstanding of $7.8 billion related to Alt-A RMBS securitizations. Of that amount, $7.7 billion is from transactions issued in the period from 2005 through 2007 and written in the Company s financial guaranty direct segment. As of September 30, 2008, the Company had portfolio reserves of $3.6 million and case reserves of $0.2 million related to its $7.8 billion Alt-A RMBS exposure, in the financial guaranty direct and reinsurance segments, respectively.

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

The Company has exposure to two life insurance reserve securitization transactions based on blocks of individual life insurance business reinsured by Scottish Re (U.S.) Inc. (Scottish Re). The two transactions relate to Ballantyne Re p.l.c. (Ballantyne) (gross exposure of $500 million) and Orkney Re II, p.l.c. (Orkney II) (gross exposure of $423 million). Under both transactions, monies raised through the issuance of the insured notes support present and future U.S. statutory life insurance reserve requirements. The monies were invested at inception of each transaction in accounts managed by a large, well-known investment manager. However, those investment accounts have incurred substantial mark-to-market losses since mid-year 2007, largely as a result of their exposure to subprime and Alt-A RMBS transactions. Largely as a result of these mark-to-market losses the rating agencies Moody s, S&P and Fitch have downgraded our exposure to both Ballantyne and Orkney II below investment grade. The Company downgraded its internal risk ratings on these transactions to BB in Q1 2008 and placed them on our credit watch list (CMC list) in risk category 1 (CMC-1). We define transactions on CMC-1 as low priority cases where the risk is considered fundamentally sound and no loss is expected, but where higher than normal risk is present. The Company is working with the directing guarantor, who has insured exposure of $900 million, to take remedial action on the Ballantyne transaction. The Company, as the directing financial guarantor, is taking remedial action on the Orkney II transaction. All investment proceeds in both Ballantyne and Orkney II are now required to be generally invested in cash or cash equivalents.

No credit losses have been realized and all of the securities in the Ballantyne and Orkney Re II portfolios continue to generate interest income. Performance of the underlying blocks of life insurance business thus far has been in accordance with expectations, and the underlying reinsurance contracts continue to generate overall positive treaty settlements that are captured in the transaction structures. The combination of cash flows from the investment accounts and the treaty settlements currently provides for greater than two times coverage of interest payments due on the notes that we insure. The notional value of the assets held in the investment accounts continues to increase via the retention of that excess cash.

In order for the Company to incur an ultimate net loss on the transactions, adverse experience on the underlying block of life insurance policies and/or credit losses in the investment portfolio would need to exceed the level of credit enhancement built into the transaction structures. The ability of the transactions to absorb such losses will continue to increase for as long as cash flows remain positive. However, further declines in the market value of the investment accounts could trigger a shut off of interest payments to the insured notes and thereby trigger claim payments by the Company. Any such claim payments ultimately could be recoverable, provided that credit losses on the investment accounts remain below the attachment point of our coverage. In addition, cedants to Scottish Re may have the right to recapture blocks of life insurance business which Scottish Re has ceded to Ballantyne and Orkney Re II. Such recaptures could require Ballantyne and Orkney Re II to sell assets and potentially realize substantial investment losses and for Assured to incur corresponding insured losses. At the present time, the Company does not expect the level of recaptures to cause insured losses.

The Company s current estimate of loss reserves represents management s best estimate of loss based on the current information, however, actual results may differ materially from current estimates.

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7. Analysis of premiums written, premiums earned and loss and loss adjustment expenses

Direct, assumed, and ceded premium and loss and loss adjustment expense amounts for the First, Second and Third Quarters of 2008 and 2007 were as follows (2007 amounts have been reclassified as discussed in Note 2):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in thousands of U.S. dollars)			
Premiums Written				
Direct	$ 71,326	$ 43,135	$ 415,501	$ 120,938
Assumed	41,489	25,352	118,892	74,473
Ceded	(1,328)	(8,069)	(12,545)	(15,138)
Net	$ 111,487	$ 60,418	$ 521,848	$ 180,273
Premiums Earned				
Direct	$ 27,793	$ 14,594	$ 67,441	$ 39,520
Assumed	59,769	26,076	122,686	