

ASSURED GUARANTY LTD

Form 10-K

March 01, 2019

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Or

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

For the transition period from to

Commission File Number 001-32141

ASSURED GUARANTY LTD.

(Exact name of Registrant as specified in its charter)

Bermuda

98-0429991

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

30 Woodbourne Avenue, Hamilton HM 08 Bermuda

(441) 279-5700

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

None

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Shares, \$0.01 per share New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of Common Shares held by non-affiliates of the Registrant as of the close of business on June 30, 2018 was \$3,831,572,150 (based upon the closing price of the Registrant's shares on the New York Stock Exchange on that date, which was \$35.73). For purposes of this information, the outstanding Common Shares which were owned by all directors and executive officers of the Registrant were deemed to be the only shares of Common Stock held by affiliates.

As of February 26, 2019, 103,085,785 Common Shares, par value \$0.01 per share, were outstanding (including 59,532 unvested restricted shares).

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Registrant's definitive proxy statement relating to its 2017 Annual General Meeting of Shareholders are incorporated by reference to Part III of this report.

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Forward Looking Statements

This Form 10-K contains information that includes or is based upon forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward looking statements give the expectations or forecasts of future events of Assured Guaranty Ltd. (AGL) and its subsidiaries (collectively with AGL, Assured Guaranty or the Company). These statements can be identified by the fact that they do not relate strictly to historical or current facts and relate to future operating or financial performance.

Any or all of Assured Guaranty's forward looking statements herein are based on current expectations and the current economic environment and may turn out to be incorrect. Assured Guaranty's actual results may vary materially. Among factors that could cause actual results to differ adversely are:

- reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance;
 - rating agency action, including a ratings downgrade, a change in outlook, the placement of ratings on watch for downgrade, or a change in rating criteria, at any time, of AGL or any of its subsidiaries, and/or of any securities AGL or any of its subsidiaries have issued, and/or of transactions that AGL's subsidiaries have insured;
 - developments in the world's financial and capital markets that adversely affect obligors' payment rates or Assured Guaranty's loss experience;
 - the possibility that budget or pension shortfalls or other factors will result in credit losses or impairments on obligations of state, territorial and local governments and their related authorities and public corporations that Assured Guaranty insures or reinsures;
 - the failure of Assured Guaranty to realize loss recoveries that are assumed in its expected loss estimates;
 - increased competition, including from new entrants into the financial guaranty industry;
 - rating agency action on obligors, including sovereign debtors, resulting in a reduction in the value of securities in Assured Guaranty's investment portfolio and in collateral posted by and to Assured Guaranty;
 - the inability of Assured Guaranty to access external sources of capital on acceptable terms;
 - changes in the world's credit markets, segments thereof, interest rates or general economic conditions;
 - the impact of market volatility on the mark-to-market of Assured Guaranty's contracts written in credit default swap form;
 - changes in applicable accounting policies or practices;
 - changes in applicable laws or regulations, including insurance, bankruptcy and tax laws, or other governmental actions;
 - the impact of changes in the world's economy and credit and currency markets and in applicable laws or regulations relating to the decision of the United Kingdom (U.K.) to exit the European Union (EU);
 - the possibility that acquisitions or alternative investments made by Assured Guaranty do not result in the benefits anticipated or subject Assured Guaranty to unanticipated consequences;
 - difficulties with the execution of Assured Guaranty's business strategy;
 - loss of key personnel;
 - the effects of mergers, acquisitions and divestitures;
 - natural or man-made catastrophes;
 - other risk factors identified in AGL's filings with the U.S. Securities and Exchange Commission (the SEC);
 - other risks and uncertainties that have not been identified at this time; and
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management's response to these 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 Form 10-K. The Company undertakes no obligation to update publicly or review any forward looking statement, whether as a result of new information, future developments or otherwise, except as required by law. Investors are advised, however, to consult any further disclosures the Company makes on related subjects in the Company's reports filed with the SEC.

If one or more of these or other risks or uncertainties materialize, or if the Company's underlying assumptions prove to be incorrect, actual results may vary materially from what the Company projected. Any forward looking statements in this Form 10-K reflect the Company's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to its operations, results of operations, growth strategy and liquidity.

For these statements, the Company claims the protection of the safe harbor for forward looking statements contained in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Convention

Unless otherwise noted, ratings on Assured Guaranty's insured portfolio and on bonds or notes purchased pursuant to loss mitigation strategies or other risk management strategies (loss mitigation securities) are Assured Guaranty's internal ratings. Internal credit ratings are expressed on a rating scale similar to that used by the rating agencies and generally reflect an approach similar to that employed by the rating agencies, except that Assured Guaranty's internal credit ratings focus on future performance, rather than lifetime performance.

In addition, unless otherwise noted, the Company excludes amounts from its outstanding par and debt service relating to securities or assets owned by the Company as a result of loss mitigation strategies, including loss mitigation securities held in the investment portfolio. The Company manages the loss mitigation securities as investments and not insurance exposure.

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PART I

ITEM 1. BUSINESS

Overview

Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty or the Company) is a Bermuda-based holding company incorporated in 2003 that provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and international public finance (including infrastructure) and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment (debt service), the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. The Company markets its financial guaranty insurance directly to issuers and underwriters of public finance and structured finance securities as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the United Kingdom (U.K.), and also guarantees obligations issued in other countries and regions, including Australia and Western Europe. The Company also provides other forms of insurance that are in line with its risk profile and benefit from its underwriting experience.

The Company conducts its financial guaranty business on a direct basis from the following companies: Assured Guaranty Municipal Corp. (AGM), Municipal Assurance Corp. (MAC), Assured Guaranty Corp. (AGC), and Assured Guaranty (Europe) plc (AGE). It also conducts business through Bermuda-based reinsurers Assured Guaranty Re Ltd. (AG Re) and Assured Guaranty Re Overseas Ltd. (AGRO). The following is a description of AGL's principal operating subsidiaries:

Assured Guaranty Municipal Corp. AGM is located and domiciled in New York. Since mid-2008, AGM has provided financial guaranty insurance and reinsurance only on debt obligations issued in the U.S. public finance and global infrastructure markets, including bonds issued by U.S. state or governmental authorities or notes issued to finance infrastructure projects. AGM was organized in 1984 as "Financial Security Assurance Inc." and until 2008 also offered insurance and reinsurance in the global structured finance market. AGM's subsidiary AGE offers insurance and reinsurance in the global public finance and structured finance markets.

Municipal Assurance Corp. MAC is located and domiciled in New York and was organized in 2008. Assured Guaranty acquired MAC on May 31, 2012. On July 16, 2013, Assured Guaranty completed a series of transactions that increased the capitalization of MAC and resulted in MAC assuming a portfolio of geographically diversified U.S. public finance exposure from AGM and AGC. MAC offers insurance and reinsurance on bonds issued by U.S. state or municipal governmental authorities, focusing on investment grade obligations in select sectors of the municipal market.

Assured Guaranty Corp. AGC is located in New York and domiciled in Maryland, was organized in 1985 and commenced operations in 1988. It provides insurance and reinsurance on debt obligations in the global structured finance market and also offers guarantees on obligations in the U.S. public finance and international infrastructure markets. AGC acquired CIFG Assurance North America, Inc. (CIFGNA) in 2016 and Radian Asset Assurance Inc. (Radian Asset) in 2015, and merged them each with and into AGC, with AGC being the surviving entity.

Assured Guaranty (Europe) plc AGE is a U.K. incorporated company licensed as a U.K. insurance company and is currently authorized to operate in various countries throughout the European Economic Area (EEA). It was organized in 1990 and issued its first financial guarantee in 1994. AGE offers financial guarantees in both the international

public finance and structured finance markets and currently is the only entity from which the Company writes business in the EEA. As discussed further under "Business" below, AGE has agreed with its regulator that new business it writes would be guaranteed using a co-insurance structure pursuant to which AGE would co-insure municipal and infrastructure transactions with AGM, and structured finance transactions with AGC.

The Company combined the operations of its European subsidiaries, AGE, Assured Guaranty (UK) plc (AGUK), Assured Guaranty (London) plc (AGLN) and CIFG Europe S.A. (CIFGE), in a transaction that was completed on November 7, 2018. Under the combination, AGUK, AGLN and CIFGE transferred their insurance portfolios to and merged with and into AGE (the Combination). See Part II, Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation, for additional information on the Combination.

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AGC had acquired MBIA UK Insurance Limited (MBIA UK) (MBIA UK Acquisition), the European operating subsidiary of MBIA Insurance Corporation (MBIA), on January 10, 2017. As of December 31, 2016, MBIA UK had an insured portfolio of approximately \$12 billion of net par. MBIA UK immediately changed its name and subsequently converted to a public limited company, Assured Guaranty (London) plc.

Assured Guaranty Re Ltd. and Assured Guaranty Re Overseas Ltd. AG Re is incorporated under the laws of Bermuda and is licensed as a Class 3B insurer under the Insurance Act 1978 and related regulations of Bermuda. AG Re indirectly owns AGRO, which is a Bermuda Class 3A and Class C insurer. AG Re and AGRO underwrite financial guaranty reinsurance, and AGRO also underwrites other non-financial guaranty insurance and reinsurance that is in line with the Company's risk profile and benefits from its underwriting experience. AG Re and AGRO write business as reinsurers of third-party primary insurers and of certain affiliated companies.

Assured Guaranty is the market leader in the financial guaranty industry. The Company's position in the market benefits from its ability to maintain strong financial strength ratings, its strong claims-paying resources, its proven willingness and ability to make claim payments to policyholders after obligors have defaulted, and its ability to achieve recoveries in respect of the claims that it has paid on insured residential mortgage-backed and other securities and to resolve its troubled municipal exposures.

The Company faces competition in the U.S. public finance financial guaranty market from Build America Mutual Assurance Company (BAM). The Company estimates, based on third party industry compilations, that the Company insured approximately 56% of the par of the insured U.S. public finance bonds issued in the primary market in 2018, while BAM insured 44% of the par. The continued presence in the market of BAM affects the Company's insured volume as well as the amount of premium the Company is able to charge.

The sustained low interest rate environment in the U.S. has also presented the Company with challenges. Over the last several years, interest rates generally have been lower than historical norms. While higher than in 2016, when the benchmark AAA 30-year Municipal Market Data (MMD) index published by Thomson Reuters was at times below 2%, the average for that rate was 3.05% in 2018, still low by historical standards. As a result, the difference in yield (or the credit spread) between a bond insured by Assured Guaranty and an uninsured bond has provided comparatively little room for issuer savings and insurance premium, and Assured Guaranty has seen a lower demand for its financial guaranty insurance from issuers over the past several years than it saw historically.

The Company believes that issuers and investors in securities will continue to purchase financial guaranty insurance, especially if interest rates rise and credit spreads widen. U.S. municipalities have budgetary requirements that are best met through financings in the fixed income capital markets. Historically, smaller municipal issuers have frequently used financial guaranties in order to access the capital markets with new debt offerings at a lower all-in interest rate than on an unguaranteed basis. In addition, the Company expects long-term debt financings for infrastructure projects will grow throughout the world, as will the financing needs associated with privatization initiatives or refinancing of infrastructure projects in developed countries.

The Company evaluates the amount of capital it requires based on an internal capital model as well as rating agency models and insurance regulations. The Company believes it has excess capital based on these measures, and has been returning some of its excess capital to shareholders by repurchasing its common shares and has been deploying some of its excess capital to acquire financial guaranty portfolios and alternative investments.

The Company considers opportunities to acquire financial guaranty portfolios, whether by acquiring financial guarantors who are no longer actively writing new business or their insured portfolios (including through reinsurance), or by commuting business that it had previously ceded. In the last several years, the Company has reassumed a number of previously ceded portfolios and has completed the acquisition of Radian Asset, CIFG Holding Inc.

(CIFGH, and together with its subsidiaries, CIFG) (the CIFG Acquisition) and the MBIA UK Acquisition. On June 1, 2018, the Company closed a transaction with Syncora Guarantee Inc. (SGI) (SGI Transaction) under which AGC assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio and AGM reassumed a book of business previously ceded to SGI by AGM. The Company continues to investigate additional opportunities related to remaining legacy financial guaranty portfolios, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

During 2016, the Company also established an alternative investments group to focus on deploying a portion of the Company's excess capital to pursue acquisitions and develop new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. In February 2017, the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers. In September 2017, the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an

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independent investment advisory firm specializing in separately managed accounts (SMAs). In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. The Company continues to investigate additional opportunities to make alternative investments, including, among others, both controlling and non-controlling investments in investment managers, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

Insurance Portfolio - Financial Guaranty

Financial guaranty insurance generally provides an unconditional and irrevocable guaranty that protects the holder of a debt instrument or other monetary obligation against non-payment of scheduled principal and interest payments when due. Upon an obligor's default on scheduled debt service payments due on the debt obligation, whether due to its insolvency or otherwise, the Company is generally required under the financial guaranty contract to pay the investor the principal or interest shortfall then due.

Financial guaranty insurance may be issued to all of the investors of the guaranteed series or tranche of a municipal bond or structured finance security at the time of issuance of those obligations or it may be issued in the secondary market to only specific individual holders of such obligations who purchase the Company's credit protection.

Both issuers of and investors in financial instruments may benefit from financial guaranty insurance. Issuers benefit when they purchase financial guaranty insurance for their new issue debt transaction because the insurance may have the effect of lowering an issuer's interest cost over the life of the debt transaction to the extent that the insurance premium charged by the Company is less than the net present value of the difference between the yield on the obligation insured by Assured Guaranty (which carries the credit rating of the specific subsidiary that guarantees the debt obligation) and the yield on the debt obligation if sold on the basis of its uninsured credit rating. The principal benefit to investors is that the Company's guaranty provides increased certainty that scheduled payments will be received when due. The guaranty may also improve the marketability and liquidity of obligations issued by infrequent or unknown issuers, as well as obligations with complex structures or backed by asset classes new to the market. In general and especially in such instances, investors may be able to sell bonds insured by highly rated financial guarantors more quickly than uninsured debt obligations and, depending on the difference between the financial strength rating of the insurer and the rating of the issuer, at a higher secondary market price than for uninsured debt obligations.

As an alternative to traditional financial guaranty insurance, in the past the Company also provided credit protection relating to a particular security or obligor through a credit derivative contract, such as a credit default swap (CDS). Under the terms of a CDS, the seller of credit protection agrees to make a specified payment to the buyer of credit protection if one or more specified credit events occurs with respect to a reference obligation or entity. In general, the Company, as the seller of credit protection, specified as credit events in its CDS failure to pay interest and principal on the reference obligation. One difference between CDS and traditional primary financial guaranty insurance is that credit default protection was typically provided to a particular buyer of credit protection, who is not always required to own the reference obligation, rather than to all investors in the reference obligation. As a result, the Company's rights and remedies under a CDS may be different and more limited than on a financial guaranty of an entire issuance. Credit derivatives were preferred by some investors, however, because they generally offered the investor ease of execution and standardized terms as well as more favorable accounting or capital treatment. Due to changes in the regulatory environment, the Company has not provided credit protection in the U.S. through a CDS since March 2009, other than in connection with loss mitigation and other remediation efforts relating to its existing book of business. See the Risk Factor captioned "Changes in or inability to comply with applicable law could adversely affect the Company's ability to do business" under Risks Related to accounting principles generally accepted in the United States of America (GAAP) and Applicable Law in "Item 1A. Risk Factors" for additional detail about the regulatory environment. The

Company has acquired or reinsured portfolios both before and after 2009 that include financial guaranty contracts in credit derivative form.

The Company also offers credit protection through reinsurance, and in the past has provided reinsurance to other financial guaranty insurers with respect to their guaranty of public finance, infrastructure and structured finance obligations. The Company believes that the opportunities currently available to it in the reinsurance market primarily consist of potentially assuming portfolios of transactions from inactive primary insurers, such as the SGI Transaction, and recapturing portfolios that it has previously ceded to third party reinsurers.

The Company's financial guaranty direct and assumed businesses provide credit protection on public finance, infrastructure and structured finance obligations. When the Company directly insures an obligation, it assigns the obligation to a geographic location or locations based on its view of the geographic location of the risk. For information on the geographic

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breakdown of the Company's financial guaranty portfolio and on its income and revenue by jurisdiction, see Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, Geographic Distribution of Net Par Outstanding, and Note 12, Income Taxes, Provision for Income Taxes.

U.S. Public Finance Obligations The Company insures and reinsures a number of different types of U.S. public finance obligations, including the following:

General Obligation Bonds are full faith and credit bonds that are issued by states, their political subdivisions and other municipal issuers, and are supported by the general obligation of the issuer to pay from available funds and by a pledge of the issuer to levy ad valorem taxes in an amount sufficient to provide for the full payment of the bonds.

Tax-Backed Bonds are obligations that are supported by the issuer from specific and discrete sources of taxation. They include tax-backed revenue bonds, general fund obligations and 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 are 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.

Transportation Bonds include a wide variety of revenue-supported bonds, such as bonds for airports, ports, tunnels, municipal parking facilities, toll roads and toll bridges.

Healthcare Bonds are obligations of healthcare facilities, including community based hospitals and systems, as well as of health maintenance organizations and long-term care facilities.

Higher Education Bonds are obligations secured by revenue collected by either public or private secondary schools, colleges and universities. Such revenue can encompass all of an institution's revenue, including tuition and fees, or in other cases, can be specifically restricted to certain auxiliary sources of revenue.

Infrastructure Bonds include obligations issued by a variety of entities engaged in the financing of infrastructure projects, such as roads, airports, ports, social infrastructure and other physical assets delivering essential services supported by long-term concession arrangements with a public sector entity.

Housing Revenue Bonds are obligations relating to both single and multi-family housing, issued by states and localities, supported by cash flow and, in some cases, insurance from entities such as the Federal Housing Administration.

Investor-Owned Utility Bonds are obligations primarily backed by investor-owned utilities, first mortgage bond obligations of for-profit electric or water utilities providing retail, industrial and commercial service, and also include sale-leaseback obligation bonds supported by such entities.

Other Public Finance Bonds include other debt issued, guaranteed or otherwise supported by U.S. national or local governmental authorities, as well as student loans, revenue bonds, and obligations of some not-for-profit organizations.

A portion of the Company's exposure to tax-backed bonds, municipal utility bonds and transportation bonds constitutes "special revenue" bonds under the United States Bankruptcy Code (Bankruptcy Code). Even if an obligor under a special revenue bond were to seek protection from creditors under Chapter 9 of the U.S. Bankruptcy Code, holders of the special revenue bond should continue to receive timely payments of principal and interest during the bankruptcy proceeding, subject to the special revenues being sufficient to pay debt service and the lien on the special revenues being subordinate to the necessary operating expenses of the project or system from which the revenues are derived. While "special revenues" acquired by the

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obligor after bankruptcy remain subject to the pre-petition pledge, special revenue bonds may be adjusted if their claim is determined to be "undersecured."

Non-U.S. Public Finance Obligations The Company insures and reinsures a number of different types of non-U.S. public finance obligations, which consist of both infrastructure projects and other projects essential for municipal function such as regulated utilities. Credit support for the exposures written by the Company may come from a variety of sources, including some combination of subordinated tranches, over-collateralization or cash reserves. Additional support also may be provided by transaction provisions intended to benefit noteholders or credit enhancers. The types of non-U.S. public finance securities the Company insures and reinsures include the following:

Regulated Utility Obligations are issued by government-regulated providers of essential services and commodities, including electric, water and gas utilities. The majority of the Company's international regulated utility business is conducted in the U.K.

Infrastructure Finance Obligations are obligations issued by a variety of entities engaged in the financing of international infrastructure projects, such as roads, airports, ports, social infrastructure, and other physical assets delivering essential services supported either by long-term concession arrangements with a public sector entity or a regulatory regime. The majority of the Company's international infrastructure business is conducted in the U.K.

Pooled Infrastructure Obligations are synthetic asset-backed obligations that take the form of CDS obligations or credit-linked notes that reference either infrastructure finance obligations or a pool of such obligations, with a defined deductible to cover credit risks associated with the referenced obligations.

Other Public Finance Obligations include obligations of local, municipal, regional or national governmental authorities or agencies.

U.S. and Non-U.S. Structured Finance Obligations The Company insures and reinsures a number of different types of U.S. and non-U.S. structured finance obligations. Credit support for the exposures written by the Company may come from a variety of sources, including some combination of subordinated tranches, excess spread, over-collateralization or cash reserves. Additional support also may be provided by transaction provisions intended to benefit noteholders or credit enhancers. The types of U.S. and non-U.S. structured finance obligations the Company insures and reinsures include the following:

Residential Mortgage-Backed Securities (RMBS) are obligations backed by closed-end and open-end first and second lien mortgage loans on one-to-four family residential properties, including condominiums and cooperative apartments. The Company has not insured a RMBS transaction since January 2008, although it has acquired RMBS insurance exposures since that time in connection with its acquisition or reinsurance of legacy financial guaranty portfolios. First lien mortgage loan products in these transactions include fixed rate, adjustable rate and option adjustable-rate mortgages. The credit quality of borrowers covers a broad range, including "prime", "subprime" and "Alt-A". A prime borrower is generally defined as one with strong risk characteristics as measured by factors such as payment history, credit score, and debt-to-income ratio. A subprime borrower is a borrower with higher risk characteristics, usually as determined by credit score and/or credit history. An Alt-A borrower is generally defined as a prime quality borrower that lacks certain ancillary characteristics, such as fully documented income.

Insurance Securitization Obligations are obligations secured by the future earnings from pools of various types of insurance and reinsurance policies and income produced by invested assets.

Consumer Receivables Securities are obligations backed by non-mortgage consumer receivables, such as student loans, automobile loans and leases, manufactured home loans and other consumer receivables.

Pooled Corporate Obligations are securities primarily backed by various types of corporate debt obligations, such as secured or unsecured bonds, bank loans or loan participations and trust preferred securities. These securities are often issued in "tranches," with subordinated tranches providing credit support to the more senior tranches. The Company's financial guaranty exposures generally are to the more senior tranches of these issues.

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Financial Products Business is the guaranteed investment contracts (GICs) portion of a line of business previously conducted by Assured Guaranty Municipal Holdings Inc. (AGMH) that the Company did not acquire when it purchased AGMH in 2009 from Dexia SA and that is being run off. That line of business consisted of AGMH's guaranteed investment contracts business, its medium term notes business and the equity payment agreements associated with AGMH's leveraged lease business. Although Dexia SA and certain of its affiliates (Dexia) assumed the liabilities related to such businesses when the Company purchased AGMH, AGM policies related to such businesses remained outstanding. Assured Guaranty is indemnified by Dexia against loss from the former Financial Products Business.

Until November 2008, AGMH's former financial products segment had been in the business of borrowing funds through the issuance of GICs insured by AGM and reinvesting the proceeds in investments that met AGMH's investment criteria. In June 2009, in connection with the Company's acquisition of AGMH from Dexia Holdings Inc., Dexia SA, the ultimate parent of Dexia Holdings Inc., and certain of its affiliates, entered into a number of agreements intended to mitigate the credit, interest rate and liquidity risks associated with the GIC business and the related AGM insurance policies. Some of those agreements have since terminated or expired, or been modified. As of December 31, 2018, the aggregate accreted GIC balance was approximately \$1.0 billion, compared with approximately \$10.2 billion as of December 31, 2009. As of December 31, 2018, the aggregate fair market value of the assets supporting the GIC business plus cash and positive derivative value exceeded by nearly \$0.8 billion the aggregate principal amount of all outstanding GICs and certain other business and hedging costs of the GIC business.

AGMH's financial products business had also issued medium term notes insured by AGM, reinvesting the proceeds in investments that met AGMH's investment criteria. As of December 31, 2018, only \$171 million of insured medium term notes remain outstanding.

The financial products business also included the equity payment undertaking agreement portion of the leveraged lease business, described in Liquidity and Capital Resources, Liquidity Requirements and Sources, Insurance Company Subsidiaries.

Other Structured Finance Obligations are obligations backed by assets not generally described in any of the other described categories.

Insurance Portfolio - Non-Financial Guaranty Insurance and Reinsurance

The Company also provides non-financial guaranty insurance and reinsurance in transactions with similar risk profiles to its structured finance exposures written in financial guaranty form. The Company provides such non-financial guaranty insurance and reinsurance, for example, for life insurance capital relief transactions and aircraft residual value insurance (RVI) transactions.

Exposure Limits, Underwriting Procedures, and Credit Policy

Exposure Limits

The Company establishes exposure limits and underwriting criteria for obligors, sectors and countries, and for individual transactions. Risk exposure limits for single obligors are based on the Company's assessment of potential frequency and severity of loss as well as other factors, such as historical and stressed collateral performance. Sector limits are based on the Company's view of stress losses for the sector and on its assessment of correlation. Country limits are based on the size and stability of the relevant economy, and the Company's view of the political environment and legal system. All of the foregoing limits are established in relation to the Company's capital base.

Underwriting Procedures

Each transaction underwritten by the Company involves persons with different skills and backgrounds across various departments within the Company. The Company's transaction underwriting teams include both underwriters and lawyers, who analyze the structure of a potential transaction and the credit and legal issues pertinent to the particular line of business or asset class, and accounting and finance personnel, who review the more complex transactions to determine the appropriate accounting treatment.

Upon completion of the underwriting analysis, the underwriter prepares a formal credit report that is submitted to a credit committee for review. An oral presentation is usually made to the committee, followed by questions from committee

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members and discussion among the committee members and the underwriters. In some cases, additional information may be presented at the meeting or required to be submitted prior to approval. Each credit committee decision is documented and any further requirements, such as specific terms or evidence of due diligence, are noted. The Company's credit committees are composed of senior officers of the Company excluding those senior officers responsible for business origination. The committees are organized by asset class, such as for public finance or structured finance, or along regulatory lines, to assess the various potential exposures.

Upon approval by the credit committee, the underwriter, working with the responsible attorney, is responsible for closing the transaction and issuing the policy. At policy issuance, the underwriter and the responsible attorney certify that the transaction closed meets the terms and conditions agreed to by the credit committee.

Credit Policy

U.S. Public Finance

For U.S. public finance transactions, the Company's underwriters generally analyze the issuer's historical financial statements and, where warranted, develop stress case projections to test the issuer's ability to make timely debt service payments under stressful economic conditions.

The Company focuses principally on the credit quality of the obligor based on population size and trends, wealth factors, and strength of the economy. The Company evaluates the obligor's liquidity position; its fiscal management policies and track record; its ability to raise revenues and control expenses; and its exposure to derivative contracts and to debt subject to acceleration. The Company assesses the obligor's pension and other post-employment benefits obligations and funding policies and evaluates the obligor's ability to adequately fund such obligations in the future. The Company analyzes other critical risk factors including the type of issue; the repayment source; pledged security, if any; the presence of restrictive covenants and the tenor of the risk. The Company also considers the ability of obligors to file for bankruptcy or receivership under applicable statutes (and on related statutes that provide for state oversight or fiscal control over financially troubled obligors). The Company also considers the environmental impact associated with the transaction. The Company weighs the risk of a rating agency downgrade of an obligation's underlying uninsured rating.

In cases of not-for-profit institutions, such as healthcare issuers and private higher education issuers, the Company focuses on the financial stability of the institution, its competitive position and its management experience.

The Company's credit policy for U.S. infrastructure transactions is substantially similar to that of non-U.S. infrastructure transactions described below.

Non-U.S. Transactions

For non-U.S. transactions, the Company undertakes an analysis of the country or countries in which the risk resides, which includes political risk as well as economic and demographic characteristics. For each transaction, the Company also performs an assessment of the legal framework governing the transaction and the laws affecting the underlying assets supporting the obligations to be insured. In general, non-U.S. transactions consist of transactions with regulated utilities or infrastructure transactions. The underwriting of regulated utilities is generally the same as for U.S. transactions, but with additional consideration given to factors specific to the relevant jurisdiction.

For non-U.S. infrastructure transactions, the Company reviews the type of project (e.g., hospital, road, social housing, transportation or student accommodation) and the source of repayment of the debt. For certain transactions, debt service and operational expenses are covered by availability payments made by either a governmental entity or a not-for-profit entity. The availability payments are due if the project is available for use, regardless of whether the project actually is in use. The principal risks for such transactions are construction risk and operational risk. The

project must be completed on time and must be available for use during the life of the concession. For other transactions, notably transactions secured by toll-roads and student accommodation, revenues derived from the project must be sufficient to make debt service payments as well as cover operating expenses during the concession period.

For infrastructure transactions, underwriters generally use financial models in order to evaluate the ability of the transaction to generate adequate cash flow to service the debt under a variety of scenarios. The models include economically stressed scenarios that the underwriters use for their assessment of the potential credit risk inherent in a particular transaction. Stress models developed internally by the Company's underwriters reflect both empirical research and information gathered

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from third parties, such as rating agencies or investment banks. The Company may also engage advisors such as consultants and external counsel to assist in analyzing a transaction's financial or legal risks.

The Company's due diligence for infrastructure projects also includes: a financial review of the entity seeking the development of the project (usually a governmental entity or university); a financial and operational review of the developer, the construction companies, and the project operator; and a financial review of the various providers of operational financial protection for the bondholders (and therefore the insurer), including construction surety providers, letter-of-credit providers, liquidity banks or account banks. The Company uses outside consultants to review the construction program and to assess whether the project can be completed on time and on budget. The Company projects the cost of replacing the construction company, including delays in construction, in the event that a construction company is unable to complete the construction for any reason. Construction security packages are sized appropriately to cover these risks and the Company requires such coverage from credit-worthy institutions.

Prior to the global financial crisis of 2008, the Company insured non-U.S. structured financial transactions, and it may do so again. If it does, it expects its underwriting process generally to be the same as for U.S. structured finance transactions described below, but with additional consideration given to factors specific to the relevant jurisdiction.

U.S. Structured Finance

Structured finance obligations generally present three distinct forms of risk: asset risk, pertaining to the amount and quality of assets underlying an issue; structural risk, pertaining to the extent to which an issuer's legal structure provides protection from loss; and execution risk, which is the risk that poor performance by a servicer or collateral manager contributes to a decline in the cash flow available to the transaction. Each of these risks is addressed through the Company's underwriting process.

For structured finance transactions, underwriters generally use financial models to evaluate the ability of the transaction to generate adequate cash flow to service the debt under a variety of hypothetical scenarios. The models include economically stressed scenarios that the underwriters use for their assessment of the potential credit risk inherent in a particular transaction. Stress models developed internally by the Company's underwriters reflect both empirical research and information gathered from third parties, such as rating agencies or investment banks. Generally, the amount and quality of asset coverage required with respect to a structured finance exposure is dependent upon both the historic performance of the asset class, as well as the Company's view of the future performance of the subject assets.

The Company may also engage advisors such as consultants and external counsel to assist in analyzing a transaction's financial or legal risks. The Company may also conduct a due diligence review that includes, among other things, a site visit to the project or facility, meetings with issuer management, review of underwriting and operational procedures, file reviews, and review of financial procedures and computer systems.

In addition, structured securities usually are designed to protect investors (and therefore the insurer or reinsurer) from the bankruptcy or insolvency of the entity that originated the underlying assets, as well as the bankruptcy or insolvency of the servicer or manager of those assets.

The Company conducts due diligence on the collateral that supports its insured transactions. The principal focus of the due diligence is to confirm the underlying collateral was originated in accordance with the stated underwriting criteria of the asset originator. The Company also conducts audits of servicing or other management procedures, reviewing critical aspects of these procedures such as cash management and collections. The Company may, for certain transactions, obtain background checks on key managers of the originator, servicer or manager of the obligations underlying that transaction.

Risk Management Procedures

Organizational Structure

The Company's policies and procedures relating to risk assessment and risk management are overseen by its Board of Directors (the Board). The Board takes an enterprise-wide approach to risk management that is designed to support the Company's business plans at a reasonable level of risk. A fundamental part of risk assessment and risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the Company. The Board annually approves the Company's business plan, factoring risk management into account. It also approves the Company's risk appetite statement, which articulates the Company's tolerance for risk and describes the general types of risk that the Company accepts or attempts to avoid. The involvement of the Board in setting the Company's business strategy is a key part of its assessment of management's risk tolerance and also a determination of what constitutes an appropriate level of risk for the Company.

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While the Board has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibility for risk assessment and risk management. The Risk Oversight Committee of the Board oversees the standards, controls, limits, underwriting guidelines and policies that the Company establishes and implements in respect of credit underwriting and risk management. It focuses on management's assessment and management of both (i) credit risks and (ii) other risks, including, but not limited to, financial, legal and operational risks (including cybersecurity risks), and risks relating to the Company's reputation and ethical standards. In addition, the Audit Committee of the Board is responsible for, among other matters, reviewing policies and processes related to risk assessment and risk management, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. It also reviews compliance with legal and regulatory requirements (including cybersecurity requirements). The Compensation Committee of the Board reviews compensation-related risks to the Company. The Finance Committee of the Board oversees the investment of the Company's investment portfolio and the Company's capital structure, liquidity, financing arrangements, rating agency matters, and any corporate development activities in support of the Company's financial plan. The Nominating and Governance Committee of the Board oversees risk at the Company by developing appropriate corporate governance guidelines and identifying qualified individuals to become board members.

The Company has established a number of management committees to develop underwriting and risk management guidelines, policies and procedures for the Company's insurance and reinsurance subsidiaries that are tailored to their respective businesses, providing multiple levels of review, analysis and control.

Portfolio Risk Management Committee—This committee establishes company-wide credit policy for the Company's direct and assumed business. It implements specific underwriting procedures and limits for the Company and allocates underwriting capacity among the Company's subsidiaries. The Portfolio Risk Management Committee is responsible for enterprise risk management for the Company on a consolidated basis and focuses on measuring and managing credit, market and liquidity risk for the Company. All transactions in new asset classes or new jurisdictions must be approved by this committee.

U.S. Management Committee—This committee establishes strategic policy and reviews the implementation of strategic initiatives and general business progress in the U.S. The U.S. Management Committee approves risk policy at the U.S. operating company level.

Risk Management Committees—The U.S., U.K., AG Re and AGRO risk management committees conduct an in-depth review of the insured portfolios of the relevant subsidiaries, focusing on varying portions of the portfolio at each meeting. They review and may revise internal ratings assigned to the insured transactions and review sector reports, monthly product line surveillance reports and compliance reports.

Workout Committee—This committee receives reports from surveillance and workout personnel on transactions that might benefit from active loss mitigation or risk reduction, and approves loss mitigation or risk reduction strategies for such transactions.

Reserve Committees—Oversight of reserving risk is vested in the U.S. Reserve Committee, the U.K. Reserve Committee, the AG Re Reserve Committee and the AGRO Reserve Committee. The committees review the reserve methodology and assumptions for each major asset class or significant BIG transaction, as well as the loss projection scenarios used and the probability weights assigned to those scenarios. The reserve committees establish reserves for the relevant subsidiaries, taking into consideration supporting information provided by surveillance personnel.

The Company's surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio, including exposures in both the financial guaranty direct and assumed businesses. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit

quality, and recommend remedial actions to management. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel recommend adjustments to those ratings to reflect changes in transaction credit quality. The Company monitors its insured portfolio and refreshes its internal credit ratings on individual exposures in quarterly, semi-annual or annual cycles based on the Company's view of the exposure's quality, loss potential, volatility and sector. Ratings on exposures in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter, although the Company may also review a rating in response to developments impacting the credit when a ratings review is not scheduled.

The Company's workout personnel are responsible for managing workout, loss mitigation and risk reduction situations. They work together with the Company's surveillance personnel to develop and implement strategies on transactions that are experiencing loss or could possibly experience loss. They develop strategies designed to enhance the ability of the

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Company to enforce its contractual rights and remedies and mitigate potential losses. The Company's workout personnel also engage in negotiation discussions with transaction participants and, when necessary, manage (along with legal personnel) the Company's litigation proceedings. They may also make open market or negotiated purchases of securities that the Company has insured, or negotiate or otherwise implement consensual terminations of insurance coverage prior to contractual maturity. The Company's surveillance personnel work with servicers of RMBS transactions to enhance their performance.

Direct Business

The Company monitors the performance of each risk in its portfolio and tracks aggregation of 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, 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. Surveillance activities may include discussions with or site visits to issuers, servicers or other parties to a transaction.

Assumed Business

For transactions that the Company has assumed, the ceding insurers are responsible for conducting ongoing surveillance of the exposures that have been ceded to the Company, except that the Company provides surveillance for exposures assumed from SGI. The Company's surveillance personnel monitor the ceding insurer's surveillance activities on exposures ceded to the Company through a variety of means, including reviews of surveillance reports provided by the ceding insurers, and meetings and discussions with their analysts. The Company's surveillance personnel also monitor general news and information, industry trends and rating agency reports to help focus surveillance activities on sectors or exposures of particular concern. For certain exposures, the Company also will undertake an independent analysis and remodeling of the exposure. The Company's surveillance personnel also take steps to ensure that the ceding insurer is managing the risk pursuant to the terms of the applicable reinsurance agreement.

Ceded Business

As part of its risk management strategy prior to the global financial crisis of 2008, the Company obtained third party reinsurance or retrocessions for various risk management purposes, and may do so again in the future. Over the past several years the Company has entered into commutation agreements reassuming portions of the previously ceded business from certain reinsurers; as of December 31, 2018, approximately 1%, or \$2.6 billion, of its principal amount outstanding was still ceded to third party reinsurers, down from 12%, or \$86.5 billion, as of December 31, 2009. In the future, the Company may enter into new commutation agreements to reassume portions of its insured business ceded to other reinsurers, but such opportunities are expected to be limited given the small number of unaffiliated reinsurers currently reinsuring the Company.

The Company has obtained excess-of-loss reinsurance in part to augment its capital in the capital models used by certain rating agencies to evaluate the Company's financial strength ratings. Specifically, effective January 1, 2018, AGC, AGM and MAC entered into a \$400 million aggregate excess of loss reinsurance facility of which \$180 million was placed with an unaffiliated reinsurer. At its inception, the facility covered losses occurring from January 1, 2018

through December 31, 2024, or from January 1, 2019 through December 31, 2025, at the option of AGC, AGM and MAC. AGC, AGM and MAC did not elect coverage under the new facility for the seven year period commencing January 1, 2018, but they retain an option, which must be exercised prior to January 1, 2020, and which requires the payment of additional premium, to elect coverage for the seven year period commencing January 1, 2019. See Part II, Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance, for more information.

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Cybersecurity

The Company relies on digital technology to conduct its businesses and interact with market participants and vendors. With this reliance on technology comes the associated security risks from using today's communication technology and networks.

To defend the Company's computer systems from cyberattacks, the Company uses tools such as firewalls, anti-malware software, multifactor authentication, e-mail security services, virtual private networks, third-party security experts, and timely applied software patches, among others. The Company has also engaged third-party consultants to conduct penetration tests to identify any potential security vulnerabilities. Although the Company believes its defenses against cyberintrusions are sufficient, it continually monitors its computer networks for new types of threats.

Importance of Financial Strength Ratings

Low financial strength ratings or uncertainty over the Company's ability to maintain its financial strength ratings would have a negative impact on issuers' and investors' perceptions of the value of the Company's insurance product. Therefore, the Company manages its business with the goal of achieving high financial strength ratings, preferably the highest that an agency will assign to a financial guarantor. However, the models used by rating agencies differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. In addition, the models are not fully transparent, contain subjective factors and may change.

Insurance financial strength ratings reflect a rating agency's opinion of an insurer's ability to pay under its insurance policies and contracts in accordance with their terms. The rating is not specific to any particular policy or contract. It does not refer to an insurer's ability to meet non-insurance obligations and is not a recommendation to purchase any policy or contract issued by an insurer or to buy, hold, or sell any security insured by an insurer. The insurance financial strength ratings assigned by the rating agencies are based upon factors that the rating agencies believe are relevant to policyholders and are not directed toward the protection of investors in AGL's common shares. Ratings reflect only the views of the respective rating agencies assigning them and are subject to continuous review and revision or withdrawal at any time.

Following the financial crisis, the rating process has been challenging for the Company due to a number of factors, including:

Instability of Rating Criteria and Methodologies. Rating agencies purport to issue ratings pursuant to published rating criteria and methodologies. Beginning during the financial crisis, the rating agencies made material changes to their rating criteria and methodologies applicable to financial guaranty insurers, sometimes through formal changes and other times through ad hoc adjustments to the conclusions reached by existing criteria. Furthermore, these criteria and methodology changes were typically implemented without any transition period, making it difficult for an insurer to comply with new standards. In December 2018, S&P Global Ratings, a division of Standard & Poor's Financial Services LLC (S&P), proposed changes to its ratings methodology for bond insurers which it said are unlikely to affect any existing credit ratings on bond insurers.

Instability of Severe Stress Case Loss Assumptions. A major component in arriving at a financial guaranty insurer's rating has been the rating agency's assessment of the insurer's capital adequacy, with each rating agency employing its own proprietary model. These capital adequacy approaches include "stress case" loss assumptions for various risks or risk categories. Since the financial crisis, the rating agencies have at various times materially increased stress case loss assumptions for various risks or risk categories, in some cases later reducing such stress case losses. This approach has made predicting the amount of capital required to maintain or attain a certain rating more difficult.

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More Reliance on Qualitative Rating Criteria. In prior years, the financial strength ratings of the Company's insurance company subsidiaries were largely consistent with the rating agency's assessment of the insurers' capital adequacy, such that a rating downgrade could generally be avoided by raising additional capital or otherwise improving capital adequacy under the rating agency's model. In recent years, however, both S&P and Moody's Investors Service, Inc. (Moody's) have applied other factors, some of which are subjective, such as the insurer's business strategy and franchise value or the anticipated future demand for its product, to justify ratings for the Company's insurance company subsidiaries significantly below the ratings implied by their own capital adequacy models. Currently, for example, S&P has concluded that Assured Guaranty has "AAA" capital adequacy under the S&P model (but subject to a downward adjustment due to a "largest obligor test") and Moody's has concluded that AGM has "Aa" capital adequacy under the Moody's model (offset by other factors including the rating agency's assessment of competitive profile, future profitability and market share).

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Despite the difficult rating agency process following the financial crisis, the Company has been able to maintain strong financial strength ratings. However, if a substantial downgrade of the financial strength ratings of the Company's insurance subsidiaries were to occur in the future, such downgrade would adversely affect its business and prospects and, consequently, its results of operations and financial condition. The Company believes that if the financial strength ratings of any of its insurance subsidiaries were downgraded from their current levels, such downgrade could result in downward pressure on the premium that such insurance subsidiary would be able to charge for its insurance. The Company periodically assesses the value of each rating assigned to each of its companies, and may as a result of such assessment request that a rating agency add or drop a rating from certain of its companies. For example, Kroll Bond Rating Agency (KBRA) ratings were first assigned to MAC in 2013, to AGM in 2014, to AGC in 2016 and to AGE in 2018; an A.M. Best Company, Inc. (Best) rating was first assigned to AGRO in 2015; while a Moody's rating was never requested for MAC, was dropped from AG Re and AGRO in 2015, and was the subject of a rating withdrawal request in the case of AGC (which request was declined).

The Company believes that so long as AGM, AGC and/or MAC continue to have financial strength ratings in the double-A category from at least one of the legacy rating agencies (S&P or Moody's), they are likely to be able to continue writing financial guaranty business with a credit quality similar to that historically written. However, if neither legacy rating agency maintained financial strength ratings of AGM, AGC and/or MAC in the double-A category, or if either legacy rating agency were to downgrade AGM, AGC and/or MAC below the single-A level, it could be difficult for the Company to originate the current volume of new financial guaranty business with comparable credit characteristics.

See "Item 1A. Risk Factors," Risk Factor captioned "Risks Related to the Company's Financial Strength and Financial Enhancement Ratings" and Part II, Item 8, Financial Statements and Supplementary Data, Note 3, Ratings, for more information about the Company's ratings.

Investments

Investment income from the Company's investment portfolio is one of the primary sources of cash flow supporting its operations and claim payments. The Company's total investment portfolio was \$10.9 billion and \$11.4 billion as of December 31, 2018 and 2017, respectively, and generated net investment income of \$398 million, \$418 million and \$408 million in 2018, 2017 and 2016, respectively.

The Company's principal objectives in managing its investment portfolio are to support the highest possible ratings for each operating company; maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and maximize total after-tax net investment income. If the Company's calculations with respect to its policy liabilities are incorrect or other unanticipated payment obligations arise, or if the Company improperly structures its investments to meet these liabilities, it could have unexpected losses, including losses resulting from forced liquidation of investments before their maturity. The investment policies of the Company's 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 the businesses.

Approximately 86% of the Company's investment portfolio is externally managed by seven investment managers: BlackRock Financial Management, Inc., Goldman Sachs Asset Management, L.P., New England Asset Management, Inc., Wellington Management Company, LLP, Insight North America LLC, MacKay Shields LLC and Wasmer, Schroeder & Company, LLC. The performance of the Company's invested assets is subject to the ability of the investment managers to select and manage appropriate investments. The Company's investment managers have discretionary authority over the Company's investment portfolio within the limits of the Company's investment guidelines approved by the Company's Board. Each manager is compensated based upon a fixed percentage of the market value of the portion of the portfolio being managed by such manager. BlackRock Financial Management, Inc.

and Wellington Management Company LLP both own more than 5% of the Company's common shares, and the Company has a minority interest in Wasmer, Schroeder & Company, LLC. During the years ended December 31, 2018, 2017 and 2016, the Company recorded investment management fees and related expenses of \$9 million, \$9 million, and \$9 million, respectively.

As of December 31, 2018, the Company internally managed 11% of the investment portfolio (excluding short-term investments), either in connection with its loss mitigation or risk management strategy, or because the Company believes a particular security or asset presents an attractive investment opportunity.

The largest component of the Company's internally managed portfolio consists of obligations that the Company purchases in connection with its loss mitigation or risk management strategy for its insured exposure. The Company also holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of its financial guaranties. The Company held approximately \$1,190 million and \$1,251 million of securities, based on

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their fair value after elimination of the benefit of any insurance provided by the Company, that were obtained for loss mitigation or risk management purposes in its internally managed investment accounts as of December 31, 2018 and December 31, 2017, respectively.

Another component of the Company's internally managed portfolio consists of alternative investments. Such investments include various funds investing in both equity and debt securities as well as investments in investment managers. During 2016, the Company established an alternative investments group to focus on deploying a portion of the Company's excess capital to pursue acquisitions and develop new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. The alternative investments group has been investigating a number of such opportunities including both controlling and non-controlling investments in investment managers. In February 2017 the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers. In September 2017 the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an independent investment advisory firm specializing in SMAs. In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. The Company continues to investigate additional opportunities to make alternative investments, including, among others, both controlling and non-controlling investments in investment managers, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

Competition

Assured Guaranty is the market leader in the financial guaranty industry. Assured Guaranty believes its financial strength, protection against defaults, credit selection policies, underwriting standards, history of making claim payments and surveillance procedures make it an attractive provider of financial guaranties.

Assured Guaranty's principal competition is in the form of obligations that issuers decide to issue on an uninsured basis. In the U.S. public finance market, when interest rates are low, investors may prefer greater yield over insurance protection, and issuers may find the cost savings from insurance less compelling. Over the last several years, interest rates generally have been lower than historical norms. Average municipal interest rates in 2018, while above the historic lows experienced in 2016 and slightly above the average rates experienced in 2017, remained low when compared to historical norms. As a result, the difference in yield (or the credit spread) between a bond insured by Assured Guaranty and an uninsured bond has provided comparatively little room for issuer savings and insurance premium. In the U.S. public finance market in 2018, market penetration of municipal bond insurance increased to approximately 5.9% of the par amount of new issues sold, compared with approximately 5.6% in 2017. The Company believes the relatively low market penetration rates in 2018 and 2017 were in part due to the extremely low interest rates prevailing during most of that period.

In the U.S. public finance market, Assured Guaranty is the only financial guaranty company active before the global financial crisis of 2008 that has maintained sufficient financial strength to write new business continuously since the crisis began. Assured Guaranty has only one direct competitor for financial guaranty in the public finance market, BAM, a mutual insurance company that commenced business in 2012.

Based on industry statistics, the Company estimates that, of the new U.S. public finance bonds sold with insurance in 2018, the Company insured approximately 56% of the par, while BAM insured approximately 44%. BAM is effective in competing with the Company for small to medium sized U.S. public finance transactions in certain sectors. BAM sometimes prices its guarantees for such transactions at levels the Company does not believe produces an adequate rate of return and so does not match, but BAM's pricing and underwriting strategies may have a negative impact on the amount of premium the Company is able to charge for its insurance for such transactions. However, the Company

believes it has competitive advantages over BAM due to: AGM's and MAC's larger capital base; AGM's ability to insure larger transactions and issuances in more diverse U.S. bond sectors; BAM's inability to date to generate profits and to increase its statutory capital meaningfully, its higher leverage ratios than those of AGM and MAC, and its unpaid debt obligations; and AGM's and MAC's strong financial strength ratings from multiple rating agencies (in the case of AGM, AA+ from KBRA, AA from S&P and A2 from Moody's, and in the case of MAC, AA+ from KBRA and AA from S&P, compared with BAM's AA solely from S&P). Additionally, as a public company with access to both the equity and debt capital markets, Assured Guaranty may have greater flexibility to raise capital, if needed.

In the global structured finance and infrastructure markets, Assured Guaranty is the only financial guaranty insurance company currently writing new guarantees. Management considers the Company's greater diversification to be a competitive advantage in the long run because it means the Company is not wholly dependent on conditions in any one market. In the international infrastructure finance market, the uninsured execution serving as the Company's principal competition occurs

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primarily in privately funded transactions where no bonds are sold in the public markets. In the structured finance market, the uninsured execution occurs in both public and primary transactions primarily where bonds are sold with sufficient credit or structural enhancement embedded in transactions, such as through overcollateralization, first loss insurance, excess spread or other terms, to make the bonds attractive to investors without bond insurance.

In the future, additional new entrants into the financial guaranty industry could reduce the Company's new business prospects, including by furthering price competition or offering financial guaranty insurance on transactions with structural and security features that are more favorable to the issuers than those required by Assured Guaranty. However, the Company believes that the presence of multiple guarantors might also increase the overall visibility and acceptance of the product by a broadening group of investors, and the fact that investors are willing to commit fresh capital to the industry may promote market confidence in the product.

In addition to monoline insurance companies, Assured Guaranty competes with other forms of credit enhancement, such as letters of credit or credit derivatives provided by banks and other financial institutions, some of which are governmental enterprises, or direct guaranties of municipal, structured finance or other debt by federal or state governments or government sponsored or affiliated agencies. Alternative credit enhancement structures, and in particular federal government credit enhancement or other programs, can interfere with the Company's new business prospects, particularly if they provide direct governmental-level guaranties, restrict the use of third-party financial guaranties or reduce the amount of transactions that might qualify for financial guaranties.

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. The Company is subject to regulation under applicable statutes in the U.S., the U.K. and Bermuda.

United States

AGL has three operating insurance subsidiaries domiciled in the U.S., which the Company refers to collectively as the Assured Guaranty U.S. Insurance Subsidiaries.

AGM is a New York domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 50 U.S. states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands.

MAC is a New York domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 50 U.S. states and the District of Columbia. MAC only insures U.S. public finance debt obligations, focusing on investment grade bonds in select sectors of that market.

AGC is a Maryland domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 50 U.S. states, the District of Columbia and Puerto Rico.

Insurance Holding Company Regulation

AGL and the Assured Guaranty U.S. Insurance Subsidiaries are subject to the insurance holding company laws of their respective jurisdictions of domicile, as well as other jurisdictions where these insurers are licensed to do insurance business. These laws generally require each of the Assured Guaranty U.S. Insurance Subsidiaries to register with its domestic state insurance department and annually to furnish financial and other information about the

operations of companies within its holding company system. Generally, all transactions among companies in the holding company system to which any of the Assured Guaranty U.S. Insurance 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 reinsurance or service agreements, require prior notice and approval or non-disapproval by the insurance department where the applicable subsidiary is domiciled.

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Change of Control

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 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 factors such as the financial strength of the applicant, the integrity and management of the applicant's board of directors and executive officers, the acquirer's plans for the management of the applicant's board of directors and executive officers, the acquirer'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 AGL that some or all of AGL's 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, determining whether assets are "admitted" and counted in statutory surplus, prohibiting 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. Insurance 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. Insurance Subsidiaries prepare statutory financial statements in accordance with Statutory Accounting Principles, 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 by regulators other than the domestic regulator are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners.

The New York State Department of Financial Services (the NYDFS), the regulatory authority of the domiciliary jurisdiction of AGM and MAC, and the Maryland Insurance Administration (the MIA), the regulatory authority of the domiciliary jurisdiction of AGC, each conducts a periodic examination of insurance companies domiciled in New York and Maryland, respectively, usually at five-year intervals. In 2017, the NYDFS and MIA in coordination commenced examinations, respectively, of AGM and MAC, and AGC, for the period covering the end of the last applicable examination period for each company through December 31, 2016. In 2018, the NYDFS and MIA completed their examinations. The NYDFS issued Reports on Examination of AGM for the five-year period ending December 31, 2016 and MAC for the period July 1, 2012 through December 31, 2016. The reports did not note any significant regulatory issues concerning those companies. The MIA issued an Examination Report with respect to AGC for the five year period ending December 31, 2016; no significant regulatory issues were noted in that report.

State Dividend Limitations

New York. One of the primary sources of cash for repurchases of shares and the payment of debt service and dividends by the Company is the receipt of dividends from AGM. Under the New York Insurance Law, AGM and MAC may only pay dividends out of "earned surplus," which is the 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, transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not

include unrealized appreciation of assets. AGM and MAC may each pay dividends without the prior approval of the New York Superintendent of Financial Services (New York Superintendent) that, together with all dividends declared or distributed by it during the preceding 12 months, do not exceed the lesser of 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period. See Part II, Item 7, Management's Discussion and Analysis, Liquidity and Capital Resources, for the maximum amount of dividends that can be paid without regulatory approval, recent dividend history and other recent capital movements.

Maryland. Another primary source of cash for the repurchases of shares and payment of debt service and dividends by the Company is the receipt of dividends from AGC. Under Maryland's insurance law, AGC may, with prior notice to the MIA, pay an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of the prior December 31) or 100% of its adjusted net investment income during that period. A dividend or distribution to a stockholder in excess of this limitation would constitute an "extraordinary dividend," which must

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be paid out of "earned surplus" and reported to, and approved by, the MIA prior to payment. "Earned surplus" is 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 or capital surplus, or applied to other purposes permitted by law, but does not include unrealized capital gains and appreciation of assets. AGC may not pay any dividend or make any distribution, including ordinary dividends, unless it notifies the Maryland Insurance Commissioner (the Maryland Commissioner) of the proposed payment within five business days following declaration and at least ten days before payment. The Maryland Commissioner may declare that such dividend not be paid if it finds that AGC's policyholders' surplus would be inadequate after payment of the dividend or the dividend could lead AGC to a hazardous financial condition. See Part II, Item 7, Management's Discussion and Analysis, Liquidity and Capital Resources, for the maximum amount of dividends that can be paid without regulatory approval, recent dividend history and other recent capital movements.

Contingency Reserves

Under the New York Insurance Law, each of AGM and MAC must establish a contingency reserve to protect policyholders. New York Insurance Law determines the calculation of the contingency reserve and the period of time over which it must be established and, subsequently, can be released.

Likewise, in accordance with Maryland insurance law and regulations, AGC also maintains a statutory contingency reserve for the protection of policyholders. Maryland insurance law determines the calculation of the contingency reserve and the period of time over which it must be established, and subsequently, can be released.

In both New York and Maryland, when considering the principal amount guaranteed, the insurer is permitted to take into account amounts that it has ceded to reinsurers. In addition, releases from the insurer's contingency reserve may be permitted under specified circumstances in the event that actual loss experience exceeds certain thresholds or if the reserve accumulated is deemed excessive in relation to the insurer's outstanding insured obligations.

From time to time, AGM and AGC have obtained the approval of their regulators to release contingency reserves based on losses or because the accumulated reserve is deemed excessive in relation to the insurer's outstanding insured obligations. In 2018, on the latter basis, AGM obtained the NYDFS's approval for a contingency reserve release of approximately \$142 million and AGC obtained the MIA's approval for a contingency reserve release of approximately \$11 million. In 2017, AGM obtained the NYDFS's approval for a contingency reserve release of approximately \$246 million and AGC obtained the MIA's approval for a contingency reserve release of approximately \$134 million. In addition, MAC also released approximately \$45 million and \$62 million of contingency reserves in 2018 and 2017, respectively, which consisted of the assumed contingency reserves maintained by MAC, as reinsurer of AGM, in respect of the same obligations that were the subject of AGM's \$142 million and \$246 million releases in 2018 and 2017, respectively.

Applicable Maryland and New York laws and regulations require regular, quarterly contributions to contingency reserves, but such laws and regulations permit the discontinuation of such quarterly contributions to an insurer's contingency reserves when such insurer's aggregate contingency reserves for a particular line of business (i.e., municipal or non-municipal) exceed the sum of the insurer's outstanding principal for each specified category of obligations within the particular line of business multiplied by the specified contingency reserve factor for each such category. In accordance with such laws and regulations, and with the approval of the MIA and the NYDFS, respectively, AGC ceased making quarterly contributions to its contingency reserves for both municipal and non-municipal business and AGM ceased making quarterly contributions to its contingency reserves for non-municipal business, in each case beginning in the fourth quarter of 2014. Such cessations are expected to continue for as long as AGC and AGM satisfy the foregoing condition for their applicable line(s) of business.

Financial guaranty insurers are also required to maintain a loss and loss adjustment expense (LAE) reserve (on a case-by-case basis) and unearned premium reserve.

Single and Aggregate Risk Limits

The New York Insurance Law and the Code of Maryland Regulations establish single risk limits for financial guaranty insurers applicable to all obligations issued by a single entity and backed by a single revenue source. For example, under the limit applicable to municipal obligations, the insured average annual debt service for a single risk, net of qualifying reinsurance and collateral, may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves. In addition, insured principal of municipal obligations attributable to any single risk, net of qualifying reinsurance and collateral, is limited to 75% of the insurer's policyholders' surplus and contingency reserves.

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Under the limit applicable to qualifying asset-backed securities, the lesser of:

the insured average annual debt service for a single risk, net of qualifying reinsurance and collateral, or

the insured unpaid principal (reduced by the extent to which the unpaid principal of the supporting assets exceeds the insured unpaid principal) divided by nine, net of qualifying reinsurance and collateral,

may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves, subject to certain conditions.

Single-risk limits are also specified for other categories of insured obligations, and generally are more restrictive than those listed for asset-backed or municipal obligations. Obligations not qualifying for an enhanced single-risk limit are generally subject to the "corporate" limit (applicable to insurance of unsecured corporate obligations) equal to 10% of the sum of the insurer's policyholders' surplus and contingency reserves. For example, "triple-X" and "future flow" securitizations, as well as unsecured investor-owned utility obligations, are generally subject to these "corporate" single-risk limits.

The New York Insurance Law and the Code of Maryland Regulations also establish aggregate risk limits on the basis of aggregate net liability insured as compared with statutory capital. "Aggregate net liability" is defined as outstanding principal and interest of guaranteed obligations insured, net of qualifying reinsurance and collateral. Under these limits, policyholders' surplus and contingency reserves must not be less than the sum of various percentages of aggregate net liability for various categories of specified obligations. The percentage varies from 0.33% for certain municipal obligations to 4% for certain non-investment-grade obligations. As of December 31, 2018, the aggregate net liability of each of AGM, MAC and AGC utilized approximately 22%, 22% and 10% of their respective policyholders' surplus and contingency reserves.

The New York Superintendent and the Maryland Commissioner each have broad discretion to order a financial guaranty insurer to cease new business originations if the insurer fails to comply with single or aggregate risk limits. In the Company's experience in New York, the New York Superintendent has shown a willingness to work with insurers to address these concerns.

Group Regulation

In connection with AGL's establishment of tax residence in the U.K., as discussed in greater detail under "Tax Matters" below, the NYDFS has been designated as group-wide supervisor for the Assured Guaranty group. Group-wide supervision by the NYDFS results in additional regulatory oversight over Assured Guaranty, particularly with respect to group-wide enterprise risk, and may subject Assured Guaranty to new regulatory requirements and constraints.

Investments

The Assured Guaranty U.S. Insurance 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 BIG 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. The Company believes that the investments made by the Assured Guaranty U.S. Insurance Subsidiaries complied with such regulations as of December 31, 2018. 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 the Company's Non-U.S. Insurance Subsidiaries

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, the business operations of the Company's reinsurance subsidiaries are affected by regulatory requirements in various U.S. states governing the ability of the ceding companies of the reinsurers to receive credit for the reinsurance on their financial statements. The Nonadmitted and Reinsurance Reform Act of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) streamlined the regulation of reinsurance by applying single state regulation for credit for reinsurance. Under the Nonadmitted and Reinsurance Reform Act, credit for reinsurance determinations are controlled by the ceding company's state of domicile and non-domiciliary states are prohibited from applying their reinsurance laws extraterritorially. 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), and loss and loss adjustment expense reserves ceded to the reinsurer. The great majority of states,

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however, also permit a credit on the statutory financial statements 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 collateral in the form of a letter of credit, trust fund or other acceptable security arrangement. Certain of those states permit such non-licensed/non-accredited reinsurers that meet certain specified requirements to apply for certified reinsurer status. If granted, such status allows the certified reinsurer to post less than 100% collateral (the exact percentage depends on the certifying state's view of the reinsurer's financial strength) and the applicable ceding company will still qualify, on the basis of such reduced collateral, for full credit for reinsurance on its statutory financial statements with respect to reinsurance contracts renewed or entered into with the certified reinsurer on or after the date the reinsurer becomes certified. 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. The Company's reinsurance subsidiaries AG Re and AGRO are not licensed, accredited or approved in any state and accordingly have established trusts to secure their reinsurance obligations. In 2017, AGRO obtained certified reinsurer status in Missouri, which allows AGRO to post 10% collateral in respect of any reinsurance assumed from Missouri-domiciled ceding companies on or after the date of AGRO's certification.

U.S. Federal Regulation

The Company's businesses are subject to direct and indirect regulation under U.S. federal law. In particular, the Company's derivatives activities are directly and indirectly subject to a variety of regulatory requirements under the Dodd-Frank Act. Based on the size of its subsidiaries' remaining legacy derivatives portfolios, AGL does not believe any of its subsidiaries is required to register with the Commodity Futures Trading Commission as a "major swap participant" or with the Securities and Exchange Commission (SEC) as a "major securities-based swap participant." Certain of the Company's subsidiaries may be subject to Dodd-Frank Act requirements to post margin or to clear on a regulated execution facility future swap transactions or with respect to certain amendments to legacy swap transactions, if they enter into such transactions.

Bermuda

AG Re and AGRO are each an insurance company currently registered and licensed under the Insurance Act 1978 of Bermuda, amendments thereto and related regulations (collectively, the Insurance Act). AG Re is registered and licensed as a Class 3B insurer and AGRO is registered and licensed as a Class 3A insurer and a Class C long-term insurer.

Bermuda Insurance Regulation

The Insurance Act imposes on insurance companies solvency and liquidity standards; restrictions on the declaration and payment of dividends and distributions; restrictions on the reduction of statutory capital; restrictions on the winding up of long-term insurers; and auditing and reporting requirements; and 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 Authority) the power to cancel insurance licenses, supervise, investigate and intervene in the affairs of insurance companies and in certain circumstances share information with foreign regulators. Class 3A and Class 3B 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. Class C 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 AG Re and AGRO is required annually to file statutorily mandated financial statements and returns, audited by an auditor approved by the Authority (no approved auditor of an insurer may have an interest in that insurer, other than as an insured, and no officer, servant or agent of an insurer shall be eligible for appointment as an insurer's approved auditor), together with an annual loss reserve opinion of the loss reserve specialist, who is approved by the Authority, and in respect of AGRO, the required actuary's certificate with respect to the long-term business. When each of AG Re and AGRO files its statutory financial statements, it is also required to deliver to the Authority a declaration of compliance, declaring whether or not the insurer has, with respect to the preceding financial year, complied with all requirements of the minimum criteria applicable to it; complied with the minimum margin of solvency as at its financial year end; complied with the applicable enhanced capital requirements as at its financial year end; complied with the minimum liquidity ratio for general business as at its financial year end; and complied with applicable conditions, directions and restrictions imposed on, or approvals granted to the insurer. AG Re and AGRO are also required to file annual financial statements prepared in conformity with GAAP, which must be available to the public.

In addition, AG Re and AGRO are each required to file a capital and solvency return that includes its Bermuda Solvency Capital Requirement (BSCR) model (or an approved internal capital model in lieu thereof), a schedule of fixed

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income investments by BSCR rating, a schedule of funds held by ceding reinsurers in segregated accounts/trusts by BSCR rating, a schedule of net reserves for losses and loss expense provisions by line of business, a schedule of premiums written by line of business, a schedule of geographic diversification of net premiums written by line of business, a schedule of risk management, a schedule of fixed income securities, a schedule of commercial insurer's solvency self-assessment, a schedule of catastrophe risk return, a schedule of loss triangles or reconciliation of net loss reserves, a schedule of eligible capital, a statutory economic balance sheet, the loss reserve specialist's opinion, a schedule of regulated non-insurance financial operating entities and a schedule of solvency. AGRO's capital and solvency return must also include, among other details, a schedule of long-term premiums written by line of business, a schedule of long-term business data, a schedule of long-term variable annuity guarantees data and reconciliation, a schedule of long-term variable annuity guarantees - internal capital model and the approved actuary's opinion.

Each of AG Re and AGRO are also required to prepare and file with the Authority, and publish on its website, a financial condition report. The Authority has discretion to approve modifications and exemptions to the public disclosure rules, on application by the insurer if, among other things, the Authority is satisfied that the disclosure of certain information will result in a competitive disadvantage or compromise confidentiality obligations of the insurer.

Finally, in lieu of the standard legal and regulatory requirements, AG Re is required to make a modified filing with the Authority, consisting of its board of directors quarterly meeting package (which includes AG Re's unaudited quarterly financial statements), no later than 30 days after the date of its quarterly board meetings.

Shareholder Controllers

Pursuant to provisions in the Insurance Act, any person who becomes a holder of 10% or more, 20% or more, 33% or more or 50% or more of the Company's common shares must notify the Authority in writing within 45 days of becoming such a holder. The Authority has the power to object to such a person if it appears to the Authority that the person is not fit and proper to be such a holder. In such a case, the Authority may require the holder to reduce their shareholding in the Company and may direct, among other things, that the voting rights attached to their common shares are not exercisable. A person that does not comply with such a notice or direction from the Authority will be guilty of an offense.

Notification of Material Changes

All registered insurers are required to give notice to the Authority of their intention to effect a material change within the meaning of the Insurance Act. For the purposes of the Insurance Act, the following changes are material: (i) the transfer or acquisition of insurance business being part of a scheme falling within, or any transaction relating to a scheme of arrangement under section 25 of the Insurance Act or section 99 of the Companies Act 1981 of Bermuda (the Companies Act), (ii) the amalgamation or merger with or acquisition of another firm, (iii) engaging in unrelated business that is retail business, (iv) the acquisition of a controlling interest in an undertaking that is engaged in non-insurance business which offers services or products to non-affiliated persons, (v) outsourcing all or substantially all of the functions of actuarial, risk management, compliance and internal audit functions, (vi) outsourcing all or a material part of an insurer's underwriting activity, (vii) transferring other than by way of reinsurance all or substantially all of a line of business, (viii) expanding into a material new line of business, (ix) the sale of an insurer, and (x) outsourcing an officer role (in this context meaning a chief executive or senior executive performing the roles of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters).

Registered insurers are not permitted to take any steps to give effect to a material change listed above unless it has first served notice on the Authority that it intends to effect such material change and, before the end of 30 days, either the Authority has notified such company in writing that it has no objection to such change or that period has lapsed

without the Authority having issued a notice of objection. A person who fails to give the required notice or who effects a material change, or allows such material change to be effected, before the prescribed period has elapsed or after having received a notice of objection is guilty of an offense.

Minimum Solvency Margin and Enhanced Capital Requirements

Under the Insurance Act, AG Re and AGRO must each ensure that the value of its general business statutory assets exceeds the amount of its general business statutory liabilities by an amount greater than the prescribed minimum solvency margin and each company's applicable enhanced capital requirement.

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The minimum solvency margin for Class 3A and Class 3B insurers is the greater of (i) \$1 million, or (ii) 20% of the first \$6 million of net premiums written; if in excess of \$6 million, the figure is \$1.2 million plus 15% of net premiums written in excess of \$6 million, or (iii) 15% of net discounted aggregate loss and loss expense provisions and other insurance reserves, or (iv) 25% of that insurer's applicable enhanced capital requirement reported at the end of its relevant year.

In addition, as a Class C long-term insurer, AGRO is required, with respect to its long-term business, to maintain a minimum solvency margin equal to the greater of (i) \$500,000, (ii) 1.5% of its assets or (iii) 25% its enhanced capital requirement reported at the end of the relevant year. For the purpose of this calculation, assets are defined as the total assets pertaining to its long-term business reported on the balance sheet in the relevant year less the amounts held in a segregated account. AGRO is also required to keep its accounts in respect of its long-term business separate from any accounts kept in respect of any other business and all receipts of its long-term business form part of its long-term business fund.

Each of AG Re and AGRO is required to maintain available statutory capital and surplus at a level equal to or in excess of its applicable enhanced capital requirement, which is established by reference to either its BSCR model or an approved internal capital model. The BSCR model is a risk-based capital model which provides a method for determining an insurer's capital requirements (statutory economic capital and surplus) by taking into account the risk characteristics of different aspects of the insurer's business. The BSCR formula establishes capital requirements for ten categories of risk: fixed income investment risk, equity investment risk, interest rate/liquidity risk, currency risk, concentration risk, premium risk, reserve risk, credit risk, catastrophe risk and operational risk. For each category, the capital requirement is determined by applying factors to asset, premium, reserve, creditor, probable maximum loss and operation items, with higher factors applied to items with greater underlying risk and lower factors for less risky items.

While not specifically referred to in the Insurance Act, the Authority has also established a target capital level (TCL) for each insurer subject to an enhanced capital requirement equal to 120% of its enhanced capital requirement. While such an insurer is not currently required to maintain its statutory capital and surplus at this level, the TCL serves as an early warning tool for the Authority and failure to maintain statutory capital at least equal to the TCL will likely result in increased regulatory oversight.

For each insurer subject to an enhanced capital requirement, there is a three-tiered capital system designed to assess the quality of capital resources that a company has available to meet its capital requirements. Under this system, all of an insurer's capital instruments will be classified as either basic or ancillary capital which in turn will be classified into one of three tiers based on their "loss absorbency" characteristics. Highest quality capital is classified as Tier 1 Capital; lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, up to certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital (determined by registration classification) may be used to support the company's minimum solvency margin, enhanced capital requirement and TCL.

Restrictions on Dividends and Distributions

The Insurance Act limits the declaration and payment of dividends and other distributions by AG Re and AGRO. Under the Insurance Act:

The minimum share capital must be always issued and outstanding and cannot be reduced. For AG Re, which is registered as a Class 3B insurer, the minimum share capital is \$120,000. For AGRO, which is registered both as a Class 3A and a Class C long-term insurer, the minimum share capital is \$370,000.

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With respect to the distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital:

(a) any such distribution that would reduce AG Re's or AGRO's total statutory capital by 15% or more of their respective total statutory capital as set out in their previous year's financial statements requires the prior approval of the Authority. Any application for such approval must include an affidavit stating that the company will continue to meet the required margins and such other information as the Authority may require; and

(b) as a Class C long-term insurer, AGRO may not 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 AGRO's approved actuary to be available for distribution otherwise than to policyholders.

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With respect to the declaration and payment of dividends:

each of AG Re and AGRO is prohibited from declaring or paying any dividends during any financial year if it is in breach of its solvency margin, minimum liquidity ratio or enhanced capital requirement, or if the declaration or payment of such dividends would cause such a breach (if it has failed to meet its minimum solvency margin or (a) minimum liquidity ratio on the last day of any financial year, the insurer will be prohibited, without the approval of the Authority, from declaring or paying any dividends during the next financial year). Dividends are paid out of each insurer's statutory surplus and, therefore, dividends cannot exceed such surplus. See "—Minimum Solvency Margin and Enhanced Capital Requirements" above and "—Minimum Liquidity Ratio" below;

an insurer which at any time fails to meet its minimum solvency margin or comply with the enhanced capital requirement may not declare or pay any dividend until the failure is rectified, and also in such circumstances the insurer must report, within 14 days after becoming aware of its failure or having reason to believe that such failure has occurred, to the Authority in writing giving particulars of the circumstances leading to the failure and giving a (b) plan detailing the manner, specific actions to be taken and time frame in which the insurer intends to rectify the failure. A failure to comply with the enhanced capital requirement will also result in the insurer furnishing certain other information to the Authority within 45 days after becoming aware of its failure or having reason to believe that such failure has occurred;

each of AG Re and AGRO is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payments of such dividends) with the Authority an affidavit signed by at least two (c) directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. Where such an affidavit is filed, it shall be available for public inspection at the offices of the Authority; and

as a Class C long-term insurer, AGRO may not 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 AGRO's approved actuary, exceeds the (d) extent (as so certified) of the liabilities of AGRO'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 AGRO's business other than its long-term business.

The Companies Act also limits the declaration and payment of dividends and other distributions by Bermuda companies such as AGL and its Bermuda subsidiaries, which consist of AG Re, AGRO and Cedar Personnel Ltd. (Bermuda Subsidiaries). Such companies 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 its liabilities. The Companies Act also regulates and restricts the reduction and return of capital and paid in share premium, including the repurchase of shares. See Part II, Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements, for more information, for the maximum amount of dividends that can be paid without regulatory approval, recent dividend history and other recent capital movements.

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real

estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable, funds held by ceding reinsurers and any other assets which the Authority on application in any particular case made to it with reasons, accepts in that case. There are certain categories of assets which, unless specifically permitted by the Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans.

The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined) and letters of credit, corporate guarantees and other instruments.

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Insurance Code of Conduct

Each of AG Re and AGRO is subject to the Insurance Code of Conduct, which establishes duties, standards, procedures and sound business principles which must be complied with to ensure sound corporate governance, risk management and internal controls are implemented by all insurers registered under the Insurance Act. The Authority will assess an insurer's compliance with the Code of Conduct in a proportionate manner relative to the nature, scale and complexity of its business. Failure to comply with the requirements under the Insurance Code of Conduct will be a factor taken into account by the Authority in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Insurance Act. Such failure to comply with the requirements of the Insurance Code of Conduct could result in the Authority exercising its powers of intervention and investigation and will be a factor in calculating the operational risk charge applicable in accordance with the insurer's BSCR model or approved internal model.

Certain Other Bermuda Law Considerations

Although AGL is incorporated in Bermuda, it is classified as a non-resident of Bermuda for exchange control purposes by the Authority. Pursuant to its non-resident status, AGL 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, AGL (as well as each of AG Re and AGRO) may not, without the express authorization of the Bermuda legislature or under a license or consent granted by the Minister of Finance (the Minister), 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 Minister, 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 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 AGL's business carried on outside Bermuda.

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

Special considerations apply to the Company's 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 certificate is available who meets the minimum standards for the position. A waiver from advertising is automatically granted in respect of any chief executive officer position and other chief officer positions. The employer can also make a request for a waiver from the requirement to advertise in certain other cases, as expressed in the Bermuda government's work permit policies. Currently, all of the Company's Bermuda based professional employees who require work permits have been granted work permits by the Bermuda government.

United Kingdom

The Company combined the operations of its European subsidiaries, AGE, AGUK, AGLN and CIFGE, in a transaction that was completed on November 7, 2018. Under the Combination, AGUK, AGLN and CIFGE transferred their insurance portfolios to and merged with and into AGE.

General

Each of AGE and Assured Guaranty Finance Overseas Ltd. (AGFOL) are subject to the U.K.'s Financial Services and Markets Act 2000 (FSMA), which covers financial services relating to deposits, insurance, investments and certain other financial products.

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Under FSMA, effecting or carrying out contracts of insurance by way of business in the U.K. each constitutes a “regulated activity” requiring authorization by the appropriate regulator. An authorized insurance company must have permission for each class of insurance business it intends to write.

Insurance companies in the U.K. are authorized and regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA and the FCA were established on April 1, 2013 and are the main regulatory authorities responsible for financial regulation in the U.K. These two regulatory bodies cover the following areas:

- the PRA, a part of the Bank of England, is responsible for prudential regulation of certain classes of financial services firms (which includes insurance companies, among others), and
- the FCA is responsible for the conduct of business regulation of all firms and the regulation of market conduct and the prudential regulation of all non-PRA firms.

While the two regulators coordinate and cooperate in some areas, they have separate and independent mandates and separate rule-making and enforcement powers. AGE is regulated by both the PRA and the FCA. AGFOL is regulated by the FCA.

The PRA carries out the prudential supervision of insurance companies through a variety of methods, including the collection of information from statistical returns, the review of accountants' reports and insurers' annual reports and disclosures, visits to insurance companies and regular formal interviews. The PRA takes a risk-based approach to the supervision of insurance companies.

The primary source of rules relating to the prudential supervision of AGE is the Solvency II Directive (Directive 2009/138/EC) as amended (including by the Omnibus II Directive (Directive 2014/51/EU)) (together, Solvency II), which came into force and effect on January 1, 2016. The PRA remains the prudential regulator for U.K. insurers such as AGE, under Solvency II. Solvency II provides rules on capital adequacy, governance and risk management and regulatory reporting and public disclosure. It is intended to align capital requirements with the risk profile of each EEA insurance company and to ensure adequate diversification of an insurer's or reinsurer's exposures to any credit risks of its reinsurers. AGE has calculated its minimum required capital according to the Solvency II criteria and is in compliance.

The PRA applies threshold conditions, which insurers must meet, and against which the PRA assesses them on a continuous basis. At a high level, these conditions are that:

- an insurer's head office, and in particular its mind and management, must be in the U.K. if it is incorporated in the U.K.;
- an insurer's business must be conducted in a prudent manner — in particular, the insurer must maintain appropriate financial and non-financial resources;
- the insurer must be fit and proper, and be appropriately staffed; and
- the insurer and its group must be capable of being effectively supervised.

The PRA assesses, on an ongoing basis, whether insurers are acting in a manner consistent with safety and soundness and appropriate policyholder protection, and so whether they meet, and are likely to continue to meet, the threshold conditions. It weights its supervision towards those issues and those insurers that, in its judgment, pose the greatest risk to its objectives. It is forward-looking, assessing its objectives not just against current risks, but also against those that could plausibly arise further ahead and will rely significantly on judgments based on evidence and analysis. Its risk assessment framework looks at the potential impact of failure of the insurer, its risk context and mitigating factors.

The key European Union (EU) legislation that is relevant to AGFOL is the Markets in Financial Instruments Directive (Directive 2014/65/EU)(MiFID II), which harmonizes the regulatory regime for investment services and activities across the EEA and the Insurance Distribution Directive (Directive EU/2016/97)(which came into force on October 1, 2018). AGFOL's MiFID II activities are limited to receiving and transmitting orders and giving investment advice and it cannot hold client money. Accordingly, although it is subject to MiFID II, AGFOL is exempt from the Capital Requirements Directive and Capital Requirements Regulations, which are the EU regulations on capital for certain MiFID firms. AGFOL has therefore calculated its minimum required capital according to the FCA's rules for

non-Capital Requirements Directive firms, and is in compliance.

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Currently, the regulatory regime in the U.K. must be consistent with relevant EU legislation, which is either directly applicable in, or must be implemented into national law by, all EU member states. The key EU legislation that is relevant to AGE is Solvency II, which provides the framework for the solvency and supervisory regime for insurers in the EEA. The key EU legislation that is relevant to AGFOL is MiFID II.

Position of U.K. Regulated Entities within the AGL Group

AGE is authorized by the PRA to effect and carry out certain classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss) for eligible counterparties and professional clients only (i.e., not retail clients). This scope of permission is sufficient to enable AGE to effect and carry out financial guaranty insurance and reinsurance. The insurance and reinsurance businesses of AGE are subject to close supervision by the PRA. AGE also has permission to arrange and advise on transactions it guarantees, and to take deposits in the context of its insurance business.

In 2010 it was agreed between management and AGE's then regulator, the Financial Services Authority (now the PRA), that new business written by AGE would be guaranteed using a co-insurance structure pursuant to which AGE would co-insure municipal and infrastructure transactions with AGM, and structured finance transactions with AGC. AGE's financial guaranty for each transaction covers a proportionate share (currently fixed from 2019 at 15%) of the total exposure, and AGM or AGC, as the case may be, guarantees the remaining exposure under the transaction (subject to compliance with EEA licensing requirements). AGM or AGC, as the case may be, will also provide a second-to-pay guaranty to cover AGE's financial guaranty.

AGE also is the principal of Assured Guaranty Credit Protection Ltd. (AGCPL). AGCPL is not PRA or FCA authorized, but is an appointed representative of AGE. This means AGCPL can carry on insurance mediation activities without a license, because AGE has regulatory responsibility for it.

AGCPL is subject to the requirements of Regulation (EU) No 648/2012 of the European Parliament and of the Council of July 4, 2012 on over the counter (OTC) derivatives, central counterparties and trade repositories (EMIR) which, as a European regulation, is directly applicable in all the member states of the EU. AGCPL is the only European entity within the AGL group which has entered into derivative contracts and as such it is the only entity in the group which is directly subject to EMIR. AGCPL has notified the European Securities and Markets Authority and the FCA of its status under EMIR as a non-financial counterparty which has exceeded the clearing threshold (an NFC+) as described in Article 10 of EMIR. AGCPL is subject to certain requirements under EMIR with respect to its portfolio of derivative contracts including: (i) the requirement to centrally clear standardized OTC derivatives (although AGCPL does not currently enter into such derivatives, and so this requirement is not currently relevant); (ii) an obligation to employ certain risk mitigation techniques relating to derivatives that cannot be centrally cleared; and (iii) a requirement to report derivative transactions to a trade repository. The Company is aware that circumstances exist in which EMIR may apply directly to non-European entities when transacting derivatives, but has determined that these circumstances do not apply to the non-European entities in AGL's group.

AGFOL, a subsidiary of AGL, is authorized by the FCA to carry out designated investment business activities (including insurance distribution) 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." In all cases, it may deal only with clients who are eligible counterparties or professional customers (i.e., not retail clients), or, when arranging in relation to non-investment insurance contracts, commercial customers. AGFOL is not authorized as an insurer and does not itself take risk in the transactions it arranges or places, and may not hold funds on behalf of its customers. AGFOL's permissions also allow it to introduce business to AGC and AGM, so that AGFOL can arrange financial guaranties underwritten by AGC and AGM.

Solvency II and Solvency Requirements

In the U.K., Solvency II has been transposed into national law through changes to existing provisions in the FCA and the PRA's respective handbooks and rulebook and through amendments to primary legislation. The Solvency II "Delegated Acts," which set out more detailed rules underlying Solvency II have direct effect in all EEA member states, including the U.K. Among other things, Solvency II introduced a revised risk-based prudential regime which includes the following "Pillar 1" regulatory capital rules:

• assets and liabilities are generally to be valued at their market value;
• the amount of required economic capital is intended to ensure, with a probability of 99.5%, that regulated firms are able to meet their obligations to policyholders and beneficiaries over the following 12 months; and

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reinsurance recoveries will be treated as a separate asset (rather than being netted against the underlying insurance liabilities).

AGE has agreed with the PRA that it will use the "Standard Formula" prescribed by Solvency II for calculation of its capital requirements.

In addition to regulatory capital rules, Solvency II also contains a number of "Pillar 2" qualitative requirements, obliging firms to develop and embed systems to identify, measure and proactively manage the risks they are, or may be, exposed to. Among other things, firms must:

- have in place an effective system of governance that provides for the sound and prudent management of its business;
- establish effective risk-management systems; and
- take a comprehensive approach to considering their risks through an Own Risk and Solvency Assessment (ORSA) as proportionate to the nature, scale and complexity of the risks inherent in their business.

"Pillar 3" reporting and disclosure requirements also exist, including a requirement to prepare a public Solvency and Financial Condition Report and a private Regular Supervisory Report. For more information on reporting requirements and the ORSA, see "Reporting Requirements" below.

Solvency II contains a regime for the supervision of groups, including groups in which the parent undertaking has its head office in a country that is outside the EEA. The treatment of such groups in part depends on whether the jurisdiction in which the non-EEA parent has its head office is determined to have a supervisory regime which is equivalent to the Solvency II regime. In the absence of such a determination, the Solvency II rules on supervision apply to the group on a worldwide basis, unless the PRA elects to apply "other methods" which ensure appropriate supervision. AGE is a direct subsidiary of a U.S. parent company.

The PRA has issued a Direction to AGE which confirms the "other methods" that the PRA will apply to ensure appropriate supervision. These include, among other things, requirements for AGE to provide the PRA with certain information, in relation to the group's risk management, risk exposures and solvency assessment. The Direction applies from November 12, 2018 until October 1, 2020, unless it is revoked earlier or no longer applicable.

Restrictions on Dividend Payments

U.K. company law prohibits each of AGE and AGFOL 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 PRA's capital requirements may in practice act as a restriction on dividends for AGE.

Reporting Requirements

U.K. insurance companies must prepare their financial statements under the Companies Act 2006, which requires the filing with Companies House of audited financial statements and related reports. In addition, starting January 1, 2016, the reporting requirements for U.K. insurance companies were modified by Solvency II. AGE is required to produce certain key reports including an annual Solvency and Financial Condition Report, Regular Supervisory Report and an ORSA, the latter as part of the so-called "Pillar 2" individual capital assessment requirements.

The PRA will review each firm's ORSA and then consider whether in its view the firm needs to hold capital in excess of its Pillar 1 capital (see "Solvency II and Solvency Requirements" above) and, if so, may impose a "capital add-on." The prescribed information to be contained in the ORSA, as well as the frequency with which the assessment must be carried out, is subject to guidance issued by the European Insurance and Occupational Pensions Authority in September 2015 and supervisory statements issued by the PRA. The PRA has advised AGE that it is not imposing a capital add-on at this time. The PRA may determine to impose a capital add-on in relation to AGE in the future.

Supervision of Management

AGE is subject to the rules contained in the Senior Managers and Certification Regime. This requires that individuals undertaking particular roles need to be registered with the PRA as undertaking a "Senior Management Function". This broadly includes individuals undertaking the executive functions and the oversight functions of each entity. There are also FCA senior

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management functions and individuals who are performing roles which fall within one of the FCA senior management functions need to be approved by the FCA.

In respect of AGFOL, individuals who perform one or more “controlled functions” such as significant influence functions (which includes all board members and other senior managers) or the customer function within authorized firms must be approved by the FCA to carry out that function. Individuals performing these functions are currently “Approved Persons” for the purpose of Part V of FSMA and staff performing these specified “controlled functions” within an authorized firm must be approved by the FCA. From December 9, 2019, the Senior Managers and Certification Regime will be extended to almost all financial services firms and this will replace the current “Approved Persons” regime.

Change of Control

Under FSMA, when a person decides to acquire or increase “control” of a U.K. authorized firm (including an insurance company) they must give the PRA notice in writing before making the acquisition. The PRA has up to 60 working days (without including any period of interruption) in which to assess a change of control case. Any person (a company or individual) that directly or indirectly acquires 10% or 20% (depending on the type of firm, the “Control Percentage Threshold”) or more of the shares, or is entitled to exercise or control the exercise of the Control Percentage Threshold or more of the voting power, in a U.K. authorized firm or its parent undertaking is considered to “acquire control” of the authorized firm. Broadly speaking, the 10% threshold applies to banks, insurers and reinsurers (but not brokers) and MiFID investment firms, and the 20% threshold to insurance brokers and certain other firms that are non-directive firms.

Intervention and Enforcement

The PRA has extensive powers to intervene in the affairs of an authorized firm, culminating in the sanction of the suspension of authorization to carry on a regulated activity. The PRA can also vary or cancel a firm's permissions under its own initiative if it considers that the firm is failing, or is likely to fail, to satisfy the Threshold Conditions. FSMA gives the PRA significant investigation and enforcement powers. It also gives the PRA a rule-making power, under which it makes the various rules that constitute its Rulebook.

The PRA also has the power to prosecute criminal offenses arising under FSMA. The FCA has the power to prosecute offenses under FSMA and to prosecute insider dealing under Part V of the Criminal Justice Act of 1993, and breaches by authorized firms of money laundering and terrorist financing regulations.

“Passporting”

EU directives currently allow AGE and AGFOL to conduct business in EU states other than the U.K. where they are authorized by the PRA or FCA under a single market directive. This right extends to the EEA. A firm taking advantage of a right under a single market directive to conduct business in another EEA state can rely on its “home state” authorization. This ability to operate in other jurisdictions of the EEA on the basis of home state authorization and supervision is sometimes referred to as “passporting.” Each of AGE and AGFOL is passported to conduct business in EEA states other than the U.K. Passporting is not applicable to firms not authorized in the EEA, such as AGM and AGC. Accordingly, the co-insurance model described above cannot be “passporting” throughout the EEA. Instead, it is a question of local law in each EEA member state as to whether AGM's or AGC's participation in a co-insurance structure, protecting insureds or risks located in that jurisdiction, would amount to the conduct of insurance business in that jurisdiction. (See also “U.K. referendum vote to leave the EU” below.)

Fees and Levies

Each of AGE and AGFOL is subject to regulatory fees and levies based on its gross premium income and gross technical liabilities. These fees are collected by the FCA (though they relate to regulation by both the PRA and the FCA). The PRA also requires authorized firms, including authorized insurers, to participate in an investors' protection fund, known as the Financial Services Compensation Scheme. The Financial Services Compensation Scheme was established to compensate consumers of financial services firms, including the buyers of insurance, against failures in the financial services industry. Eligible claimants (identified in the Policyholder Protection section of the PRA Rulebook) may be compensated by the Financial Services Compensation Scheme when an authorized insurer is unable, or likely to be unable, to satisfy policyholder claims. General insurance in class 14 (credit) is not protected by the Financial Services Compensation Scheme, nor is reinsurance in any class; however, other direct insurance classes

written by AGE are covered (namely, classes 15 (suretyship) and 16 (miscellaneous financial loss)).

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Material Contracts

AGM provides support to AGE through a quota share and excess of loss reinsurance agreement (the AGM Reinsurance Agreement) and a net worth maintenance agreement (the AGE Net Worth Agreement).

The versions of such agreements currently in force became effective on November 7, 2018 upon completion of the Combination. These new agreements clarified the application of the prior agreements to AGE upon the Combination. They also incorporated changes to certain terms of the prior agreements requested by the PRA during its review of the Combination, including a change to the amount of collateral that AGM is obligated to post to secure its reinsurance of AGE. Except for such changes, the new agreements do not materially alter the terms or coverage of the prior agreements.

The AGM Reinsurance Agreement - Quota Share Reinsurance: Under the quota share cover of the prior AGM Reinsurance Agreement AGM reinsured between approximately 95% - 99% of AGE's retention of each AGE financial guaranty insurance policy after cessions to other reinsurers. Such range of proportionate reinsurance by AGM was the result of a formula in the prior AGM Reinsurance Agreement that fixed AGM's reinsurance of AGE policies issued during a particular calendar year based upon the respective prior year-end capitalization of AGE and AGM.

The AGE policies reinsured pursuant to the prior AGM Reinsurance Agreement were limited to ones issued in 2011 and prior years because:

(a) AGE and AGM in 2011 implemented a co-guarantee structure pursuant to which (i) AGE, rather than guaranteeing directly all of the obligations issued in a particular transaction, directly guarantees, instead, only the portion of the guaranteed obligations in an amount equal to what would have been AGE's pro rata retention percentage under the quota share cover of the prior AGM Reinsurance Agreement, (ii) AGM directly guarantees the balance of the guaranteed obligations, and (iii) AGM also provides a second-to-pay guarantee for AGE's portion of the guaranteed obligations; and

(b) the prior AGM Reinsurance Agreement excluded AGE's insured portion of the co-guaranteed obligations from reinsurance by AGM, and all AGE business since 2011 has consisted of transactions insured pursuant to such co-guarantee structure.

The new AGM Reinsurance Agreement maintains in place AGM's proportionate reinsurance of all AGE policies covered under the prior AGM Reinsurance Agreement. The new agreement provides, however, that to the extent AGE issues a future qualifying policy without utilizing the co-guarantee structure described above, AGM will reinsure a fixed 85% share of AGE's gross liabilities under such policy, rather than a percentage share based on AGE's and AGM's respective prior year-end capitalization. Similarly, the percentages of a future transaction's obligations that AGE and AGM co-guarantee will be split 15% by AGE and 85% by AGM, so that AGM's co-guaranteed portion continues to mirror the percentage of quota share reinsurance AGM otherwise would provide for the transaction under the new AGM Reinsurance Agreement.

The AGM Reinsurance Agreement - Excess of Loss Reinsurance: Under the excess of loss cover of the prior AGM Reinsurance Agreement, AGM was obligated to pay AGE quarterly the amount, if any, by which (i) the sum of (a) AGE's incurred losses calculated in accordance with U.K. GAAP as reported by AGE in its financial returns filed with the PRA and (b) AGE's paid losses and LAE, in both cases net of all other performing reinsurance, including the reinsurance provided by the Company under the quota share cover of the AGM Reinsurance Agreement, exceeded (ii) an amount equal to (a) AGE's capital resources under U.K. law minus (b) 110% of the greatest of the amounts as might be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K. The new AGM Reinsurance Agreement provides this same form of excess of loss reinsurance; it simply

clarifies that such reinsurance covers the legacy portfolios transferred to AGE by AGUK, AGLN and CIFGE in addition to the legacy AGE policies reinsured under the prior AGM Reinsurance Agreement.

Other Provisions of the AGM Reinsurance Agreement: Under the new AGM Reinsurance Agreement, AGM's required collateral is 102% of the sum of AGM's assumed share of the following for all AGE policies for which AGM provides proportionate reinsurance: (a) AGE's unearned premium reserve (net of AGE's reinsurance premium payable to AGM); (b) AGE's provisions for unpaid losses and allocated loss adjustment expenses (net of any salvage recoverable), and (c) any unexpired risk provisions of AGE, in each case (a) - (c) as calculated by AGE in accordance with U.K. GAAP. This new, post-Combination collateral measure is in contrast to (i) AGM's collateral measure prevailing from December 2014 through 2015, which was based, in part, upon the losses expected to be borne by AGM (and two other affiliated reinsurers of AGE, AG Re and AGRO) at the 99.5% confidence interval under the PRA's FG Benchmark Model; and (ii) AGM's collateral measure prevailing from 2016 up to the time of the Combination, which was based on the same losses calculated under AGE's internal capital

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requirement model instead of the FG Benchmark Model. As a result of this new collateral measure, AGM's total collateral required for AGE increased by approximately \$52 million upon the Combination. AGM funded such increase promptly following the Combination.

The quota share and excess loss covers under the prior AGM Reinsurance Agreement excluded transactions guaranteed by AGE on or after July 1, 2009 that were not municipal, utility, project finance or infrastructure risks or similar types of risks. The new AGM Reinsurance Agreement retains the same exclusion. The old AGM Reinsurance Agreement also permitted AGE to terminate the agreement upon the following events: a downgrade of AGM's ratings by Moody's below Aa3 or by S&P below AA- if AGM fails to restore its rating(s) to the required level within a prescribed period of time; AGM's insolvency; failure by AGM to maintain the minimum capital required by its domiciliary jurisdiction; or AGM filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed. The new AGM Reinsurance Agreement preserves these same termination rights by AGE, and also adds an additional termination right enabling AGE to terminate the agreement should AGM fail to maintain its required collateral.

The AGE Net Worth Agreement: Pursuant to the prior AGE Net Worth Agreement, AGM was obligated to cause AGE to maintain capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K., provided that AGM's contributions (a) did not exceed 35% of AGM's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (b) were in compliance with Section 1505 of the New York Insurance Law. AGM's obligation remains the same under the new AGE Net Worth Agreement, which simply clarifies that it applies to AGE's expanded insurance and investment portfolios resulting from the Combination. AGM has never been required to make a contribution to AGE's capital under any version of the AGE Net Worth Agreement - either the current agreement or any prior net worth maintenance agreements. The new AGE Net Worth Agreement also permits AGE to terminate such agreement without also triggering an automatic termination of the AGM Reinsurance Agreement (as would have occurred under the prior AGE Net Worth Agreement).

The NYDFS approved each of the changes described above to the AGM Reinsurance Agreement and AGE Net Worth Maintenance Agreement.

AGC's Support Agreements in Respect of AGUK: Prior to the Combination, the Company's affiliate, AGC, provided support to AGUK through a Further Amended and Restated quota share reinsurance agreement (the AGC Quota Share Agreement), a Further Amended and Restated excess of loss reinsurance agreement (the AGC XOL Agreement), and a Further Amended and Restated net worth maintenance agreement (the AGUK Net Worth Agreement). The latter two agreements were terminated effective upon the Combination because AGUK's legacy policies became part of AGE's portfolio upon the Combination and, therefore, are now covered by the excess of loss portion of the new AGM Reinsurance Agreement and the new AGE Net Worth Maintenance Agreement, as described above. The AGC Quota Share Agreement, pursuant to which AGC provided 90% quota share reinsurance of AGUK's legacy policies, was also terminated upon the Combination, but it was replaced with a new quota share reinsurance agreement between AGE and AGC (the New AGC Reinsurance Agreement). This new agreement preserves AGC's 90% quota share reinsurance of the legacy AGUK policies that are now part of AGE's portfolio, but it has no application to new business written by AGE following the Combination. The new AGC Reinsurance Agreement also imposes a new collateral requirement on AGC that is the same as AGM's collateral requirement under the new AGM Reinsurance Agreement, as described above, except that AGC continues also to post as collateral its share of two AGE-guaranteed (formerly, pre-Combination, AGUK-guaranteed) triple-X insurance bonds that have been purchased by AGC for loss mitigation (as AGC had similarly done under the prior AGC Quota Share Agreement).

The MIA approved the termination of the prior AGC XOL Agreement, AGUK Net Worth Agreement and the AGC Quota Share Agreement and the replacement of the latter with the new AGC Reinsurance Agreement.

AGC's Letter of Support in Respect of CIFGE: AGC was a party to a letter of support dated December 6, 2001 issued to CIFGE. Pursuant to such letter of support, AGC agreed to maintain CIFGE's statutory capital and surplus to policyholders under French law and regulation in an amount not less than €20 million for so long as CIFGE carried on business. No capital contributions were made to CIFGE by AGC pursuant to this letter of support from the time AGC succeeded CIFGNA as the parent of CIFGE in July 2016 up to the Combination on November 7, 2018. The letter of support was terminated, with the MIA's approval, effective upon the Combination since the legacy CIFGE policies are now part of AGE and, therefore, are covered by the excess of loss portion of the new AGM Reinsurance Agreement and the new AGE Net Worth Agreement.

U.K. referendum vote to leave the European Union

On June 23, 2016, the U.K. voted in a national referendum to withdraw from the EU. The result of the referendum does not legally oblige the U.K. to exit the EU (a so-called Brexit). However, on March 29, 2017 the U.K. government served

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notice to the European Council of its desire to withdraw in accordance with Article 50 of the Treaty on European Union (Article 50).

Article 50 envisages a negotiation period leading to an exit on a mutually agreed date. However, in the absence of such mutual agreement, the default date for exit is two years after the member state serves the Article 50 notice. EU treaties will therefore cease to apply to the U.K. on the earlier of (i) the entry into force of any withdrawal agreement or (ii) two years after the giving of notice (unless the U.K. and all remaining Member States unanimously agree to extend the negotiation period).

As part of the negotiations, the U.K. is seeking a transition period during which it will have ceased to be a member state of the EU, but will continue to have rights and obligations under EU law, other than the right to participate formally in the EU decision making process. The EU published a paper setting out its terms for a transition period on January 29, 2018, one of which was that the transition period should not last beyond December 31, 2020. The transition period will be dependent upon the U.K. and EU agreeing to the terms of a withdrawal agreement, which has been largely completed, but has not yet been approved by the U.K. Parliament.

Failing the entry into effect of the withdrawal agreement or an agreed extension to the planned U.K. departure date, the U.K. will leave the EU on March 29, 2019 with no agreement on the terms of its departure (a No-Deal Brexit), leaving considerable uncertainty as to the ongoing relationship and a likely negative impact on all parties. Given the lack of clarity on the ultimate post-Brexit relationship between the U.K. and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the U.K.

A further question arising from Brexit is whether U.K. authorized financial services firms such as AGE will continue to enjoy passporting rights to the other 27 EEA states after Brexit. This question will be particularly acute in the event of a No-Deal Brexit, because the loss of passporting could occur as early as March 29, 2019, rather than December 31, 2020, the end of the transition period under the withdrawal agreement. As a consequence, Assured Guaranty is establishing a new subsidiary in Paris, France, in order to continue with the ability to write new business, and to service existing business, in those other EEA states. That new subsidiary is unlikely to be fully licensed prior to a No-Deal Brexit, should that occur. While the Company believes that, in the event of a No-Deal Brexit or in the absence of applicable transition rules, those other EEA states outside the U.K. will permit the Company to continue to service existing business in their states, there can be no assurance that this will occur, nor can the Company fully determine the impact on its business and operations if it does not occur.

Until the U.K. leaves the EU, EU legislation will remain in force and the role of EU institutions will be unchanged. On withdrawal of the U.K. from the EU, in the absence of any agreement to the contrary, all treaty obligations would lapse, directives, directly effective decisions and regulations (as well as rulings of the Court of Justice of the EU) would cease to apply and the competencies of EU institutions would fall away. The EU's paper on the transition arrangements published on January 29, 2018 envisages EU legislation continuing to apply to the U.K. throughout the transition period.

The U.K. Government has proposed legislation to bring all aspects of European law to the extent possible into U.K. law prior to the U.K. exiting the EU. It seems most likely, given the relatively short timeframe available, that initially Solvency II will be brought into U.K. law in substantially its current form. Retaining Solvency II in substantially its current form would also make it easier for the U.K. to obtain a ruling of "equivalence" from the European Commission under Solvency II, which would accord insurers certain advantages when it comes to the Solvency II rules on reinsurance, the calculation of group capital and group supervision.

The Treasury Select Committee of the House of Commons has conducted a review of Solvency II against the backdrop of Brexit, taking into account certain features which are regarded as unsuitable by the U.K. industry. The

results of the Treasury Select Committee's work have been responded to by the PRA and may feed in to future discussions about potential changes to U.K. insurance regulation.

Any changes to U.K. insurance regulation following Brexit could reduce the chances of the U.K. obtaining (or subsequently preserving) a ruling of equivalence.

See the Risk Factor captioned "Brexit may adversely impact exposures insured by the Company and may also impact the Company through currency exchange rates" under Risks Related to the Financial, Credit and Financial Guaranty Markets and Risk Factor captioned "Changes in applicable laws and regulations resulting from Brexit may adversely effect the Company" under Risks Related to GAAP and Applicable Law, in Item 1A, Risk Factors.

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Tax Matters

United States Tax Reform

Recent tax reform commonly referred to as the 2017 Tax Cuts and Jobs Act (Tax Act) was passed by the U.S. Congress and was signed into law on December 22, 2017. The Tax Act lowered the corporate U.S. tax rate to 21%, eliminated the alternative minimum tax, limited the deductibility of interest expense and requires a one-time tax on a deemed repatriation of untaxed earnings of non-U.S. subsidiaries. In the context of the taxation of U.S. property/casualty insurance companies such as the Company, the Tax Act also modifies the loss reserve discounting rules and the proration rules that apply to reduce reserve deductions to reflect the lower corporate income tax rate. In addition, the Tax Act included certain provisions 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 and United States persons investing in such companies. For example, the Tax Act includes a base erosion anti-avoidance tax (BEAT) that could make affiliate reinsurance between United States and non-U.S. members of the Company's group economically unfeasible. In addition, the Tax Act introduced a current tax on global intangible low taxed income that may result in an increase in U.S. corporate income tax imposed on the Company's U.S. group members with respect to earnings of their non-U.S. subsidiaries. As discussed in more detail below, the Tax Act also revised the rules applicable to passive foreign investment companies (PFICs) and controlled foreign corporations (CFCs). Although the Company is currently unable to predict the ultimate impact of the Tax Act on its business, shareholders and results of operations, it is possible that the Tax Act may increase the U.S. federal income tax liability of U.S. members of the group that cede risk to non-U.S. group members and may affect the timing and amount of U.S. federal income taxes imposed on certain U.S. shareholders. Further, it is possible that other legislation could be introduced and enacted by the current Congress or future Congresses that could have an adverse impact on the Company. Additionally, tax laws and interpretations regarding whether a company is engaged in a U.S. trade or business or whether a company is a CFC or a PFIC or has related person insurance income (RPII) are subject to change, possibly on a retroactive basis. Currently there are only proposed regulations regarding the application of the PFIC rules to an insurance company. Additionally, the regulations regarding RPII have been in proposed form since 1991. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Company 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. See Part II, Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation and Note 12, Income Taxes.

Taxation of AGL 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 AGL or its Bermuda Subsidiaries. AGL, AG Re and AGRO have each obtained from the Minister of Finance under the Exempted Undertakings 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 AGL, AG Re or AGRO or to any of their operations or their shares, debentures or other obligations, until March 31, 2035. This assurance is subject to the provision that it is not to be construed so as to prevent the application of any tax or duty 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 AGL, AG Re or AGRO. AGL, AG Re and AGRO each pays annual Bermuda government fees, and AG Re and AGRO 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 States

AGL has conducted and intends to continue to conduct substantially all of its operations outside the U.S. and to limit the U.S. contacts of AGL and its non-U.S. subsidiaries (except AGRO, which elected to be taxed as a U.S. corporation) so that they should not be engaged in a trade or business in the U.S. A non-U.S. corporation, such as AG Re, that is deemed to be engaged in a trade or business in the United States 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 non-U.S. corporation would generally be entitled to deductions and credits only if it timely files a U.S. federal income tax return. AGL, AG Re and certain of the other non-U.S. subsidiaries have and will continue to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim

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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 21% for a corporation's effectively connected income and 30% for the "branch profits" tax.

Under the income tax treaty between Bermuda and the U.S. (the Bermuda Treaty), a Bermuda insurance company would not be subject to U.S. income tax on 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 U.S. AG Re currently intends to conduct its activities so that it does not have a permanent establishment in the U.S.

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 U.S. 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 U.S. or Bermuda nor U.S. citizens.

Non-U.S. insurance companies carrying on an insurance business within the U.S. 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 AG Re or another of the Company's Bermuda Subsidiaries is considered to be engaged in the conduct of an insurance business in the U.S. 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 Internal Revenue Code of 1986, as amended (the Code), could subject a significant portion of AG Re's or another of the Company's Bermuda subsidiary's investment income to U.S. income tax.

AGL, as a U.K. tax resident, would not be subject to U.S. income tax on any income found to be effectively connected with a U.S. trade or business under the income tax treaty between the U.S. and the U.K. (the U.K. Treaty), unless that trade or business is conducted through a permanent establishment in the United States. AGL intends to conduct its activities so that it does not have a permanent establishment in the United States.

Non-U.S. corporations not engaged in a trade or business in the U.S., and those that are engaged in a U.S. trade or business with respect to their non-effectively connected income are nonetheless subject to U.S. withholding tax on certain "fixed or determinable annual or periodic gains, profits and income" derived from sources within the U.S. (such as dividends and certain interest on investments), subject to exemption under the Code or reduction by applicable treaties. The standard non-treaty rate of U.S. withholding tax is currently 30%. The Bermuda Treaty does not reduce the U.S. withholding rate on U.S.-sourced investment income. The U.K. Treaty reduces or eliminates U.S. withholding tax on certain U.S. sourced investment income, including dividends from U.S. companies to U.K. resident persons entitled to the benefit of the U.K. Treaty.

The U.S. also imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers with respect to risk of a U.S. person located wholly or partly within the U.S. or risks of a foreign person engaged in a trade or business in the U.S. which are located within the U.S. The rates of tax applicable to premiums paid are 4% for direct casualty insurance premiums and 1% for reinsurance premiums.

AGRO has elected to be treated as a U.S. corporation for all U.S. federal tax purposes and, as such, AGRO, together with AGL's U.S. subsidiaries, is subject to taxation in the U.S. at regular corporate rates.

If AGRO were to pay dividends to its U.S. holding company parent and that U.S. holding company were to pay dividends to its Bermudian parent AG Re, such dividends would be subject to U.S. withholding tax at a rate of 30%.

United Kingdom

In November 2013, AGL became tax resident in the U.K. AGL remains a Bermuda-based company and its administrative and head office functions continue to be carried on in Bermuda. The AGL common shares have not changed and continue to be listed on the New York Stock Exchange (NYSE).

As a company that is not incorporated in the U.K., AGL will be considered tax resident in the U.K. only if it is “centrally managed and controlled” in the U.K. Central management and control constitutes the highest level of control of a company’s affairs. Effective November 6, 2013, the AGL Board intends to manage the affairs of AGL in such a way as to maintain its status as a company that is tax resident in the U.K.

As a U.K. tax resident company, AGL is subject to the tax rules applicable to companies resident in the U.K., including the benefits afforded by the U.K.’s tax treaties.

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As a U.K. tax resident, AGL is required to file a corporation tax return with Her Majesty's Revenue & Customs (HMRC). AGL will be subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. The rate of corporation tax is currently 19% and will be reduced to 17% with effect from April 1, 2020. AGL has also registered in the U.K. to report its value added tax (VAT) liability. The current rate of VAT is 20%.

The dividends AGL receives from its direct subsidiaries should be exempt from U.K. corporation tax due to the exemption in section 931D of the U.K. Corporation Tax Act 2009. In addition, any dividends paid by AGL to its shareholders should not be subject to any withholding tax in the U.K. The non-U.K. resident subsidiaries intend to operate in such a manner that their profits are outside the scope of the charge under the "controlled foreign companies" regime. Accordingly, Assured Guaranty does not expect any profits of non-U.K. resident members of the group to be attributed to AGL and taxed in the U.K. under the CFC regime and has obtained clearance from HMRC confirming this on the basis of current facts and intentions.

Taxation of Shareholders

Bermuda Taxation

Currently, there is no Bermuda capital gains tax, or withholding or other tax payable on principal, interest or dividends paid to the holders of the AGL common shares.

United States Taxation

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 U.S. or any foreign government.

The following summary sets forth the material U.S. federal income tax considerations related to the purchase, ownership and disposition of AGL's shares. Unless otherwise stated, this summary deals only with holders that are U.S. Persons (as defined below) who purchase and hold their shares and who hold their 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, special rules apply to certain shareholders, such as partnerships, insurance companies, regulated investment companies, real estate investment trusts, dealers or traders in securities, tax exempt organizations, expatriates, persons that do not hold their securities in the U.S. dollar, persons who are considered with respect to AGL or any of its non-U.S. subsidiaries as "United States shareholders" for purposes of the 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 or value of all classes of AGL or the stock of any of AGL's non-U.S. subsidiaries (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. Any such shareholder should consult their tax advisor.

If a partnership holds AGL's shares, the tax treatment of the partners will generally depend on the status of the partner and the activities of the partnership. Partners of a partnership owning AGL's shares should consult their tax advisers.

For purposes of this discussion, the term "U.S. Person" means: (i) a citizen or resident of the U.S., (ii) a partnership or corporation, created or organized in or under the laws of the U.S., or organized under 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 U.S. 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 Distributions. Subject to the discussions below relating to the potential application of the CFC, RPII and PFIC rules, cash distributions, if any, made with respect to AGL's shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of AGL (as computed using U.S. tax principles). Dividends paid by AGL to corporate shareholders will not be eligible for the dividends received deduction. To the extent such distributions exceed AGL'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.

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AGL believes dividends paid by AGL on its common shares to non-corporate holders will be eligible for reduced rates of tax at the rates applicable to long-term capital gains as "qualified dividend income," provided that AGL is not a PFIC and certain other requirements, including stock holding period requirements, are satisfied.

Classification of AGL or its Non-U.S. Subsidiaries as a CFC. Each 10% U.S. Shareholder (as defined below) of a non-U.S. corporation that is a CFC at any time during a taxable year that owns, directly or indirectly through non-U.S. entities, shares in the non-U.S. corporation on the last day of the non-U.S. corporation's taxable year on which it is a CFC, 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. "Subpart F income" of a non-U.S. insurance corporation typically includes non-U.S. personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income). A non-U.S. corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through non-U.S. 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 non-U.S. 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 non-U.S. 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 non-U.S. entities or constructively) at least 10% of the total combined voting power or value of all classes of stock of the non-U.S. corporation. The Tax Act expanded the definition of 10% U.S. Shareholder to include ownership by value (rather than just vote), so provisions in the Company's organizational documents that cut back voting power to potentially avoid 10% U.S. Shareholder status will no longer mitigate the risk of 10% U.S. Shareholder status. AGL believes that because of the dispersion of AGL's share ownership, no U.S. Person who owns shares of AGL directly or indirectly through one or more non-U.S. entities should be treated as owning (directly, indirectly through non-U.S. entities, or constructively), 10% or more of the total voting power or value of all classes of shares of AGL or any of its non-U.S. subsidiaries. However, AGL's shares may not be as widely dispersed as the Company believes due to, for example, the application of certain ownership attribution rules, and no assurance may be given that a U.S. Person who owns the Company's shares will not be characterized as a 10% U.S. Shareholder. In addition, the direct and indirect subsidiaries of Assured Guaranty US Holdings Inc. (AGUS) are characterized as CFCs and any subpart F income generated will be included in the gross income of the applicable domestic subsidiaries in the AGL group.

The RPII CFC Provisions. The following discussion generally is applicable only if the RPII of AG Re or any other non-U.S. insurance subsidiary that either (i) has not made an election under section 953(d) of the Code to be treated as a U.S. corporation for all U.S. federal tax purposes or (ii) is not a CFC owned directly or indirectly by AGUS (each a "Foreign Insurance Subsidiary" or collectively, with AG Re, the "Foreign Insurance Subsidiaries") determined on a gross basis, is 20% or more of the Foreign Insurance Subsidiary'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 taxable year in which the Foreign Insurance Subsidiary's gross RPII falls below the 20% threshold or the 20% Ownership Exception is met. Although the Company cannot be certain, it believes that each Foreign Insurance Subsidiary has been, in prior years of operations, and will be, for the foreseeable future, either below the 20% threshold or in compliance with the requirements of 20% Ownership Exception 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 a Foreign Insurance Subsidiary 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 non-U.S. entities) any amount of AGL'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 non-U.S. Insurance Subsidiary will be treated as a CFC under the RPII provisions if RPII shareholders are treated as owning (directly, indirectly through non-U.S. entities or constructively) 25% or more of the shares of AGL by vote or value.

RPII Exceptions. The special RPII rules do not apply if (i) at all times during the taxable year less than 20% of the voting power and less than 20% of the value of the stock of AGL (the 20% Ownership Exception) is owned (directly or indirectly through entities) by persons who are (directly or indirectly) insured under any policy of insurance or reinsurance issued by a Foreign Insurance Subsidiary or related persons to any such person, (ii) RPII, determined on a gross basis, is less

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than 20% of a Foreign Insurance Subsidiary's gross insurance income for the taxable year (the 20% Gross Income Exception), (iii) a Foreign Insurance Subsidiary 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) a Foreign Insurance Subsidiary elects to be treated as a U.S. corporation and waive all treaty benefits and meet certain other requirements. The Foreign Insurance Subsidiaries do not intend to make either of these elections. Where none of these exceptions applies, each U.S. Person owning or treated as owning any shares in AGL (and therefore, indirectly, in a Foreign Insurance Subsidiary) on the last day of AGL'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 a Foreign Insurance Subsidiary 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 a Foreign Insurance Subsidiary'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. The Foreign Insurance Subsidiaries intend to operate in a manner that is intended to ensure that each qualifies for either the 20% Gross Income Exception or 20% Ownership Exception.

Computation of RPII. For any year in which a Foreign Insurance Subsidiary does not meet the 20% Ownership Exception or the 20% Gross Income Exception, AGL may also seek information from its shareholders as to whether beneficial owners of 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 AGL is unable to determine whether a beneficial owner of shares is a U.S. Person, AGL may assume that such owner is not a U.S. Person, thereby increasing the per share RPII amount for all known RPII shareholders. 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. If a Foreign Insurance Subsidiary meets the 20% Ownership Exception or the 20% Gross Income Exception, RPII shareholders will not be required to include RPII in their taxable income.

Apportionment of RPII to U.S. Holders. Every RPII shareholder who owns shares on the last day of any taxable year of AGL in which a Foreign Insurance Subsidiary does not meet the 20% Ownership Exception or the 20% Gross Income Exception should expect that for such year it will be required to include in gross income its share of a Foreign Insurance Subsidiary's RPII for the portion of the taxable year during which the Foreign Insurance Subsidiary 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 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 the Foreign Insurance Subsidiary's RPII.

Basis Adjustments. An RPII shareholder's tax basis in its common shares will be increased by the amount of any RPII the shareholder includes in income. The RPII shareholder may exclude from income the amount of any distributions by AGL 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 are complex and have never been interpreted by the courts or the Treasury Department in final regulations; 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 Internal Revenue Service (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 the Foreign Insurance Subsidiaries is uncertain. In addition, the Company 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 which does business with a

Foreign Insurance Subsidiary and is considering an investment in common shares should consult his tax advisor as to the effects of these uncertainties.

Information Reporting. Under certain circumstances, U.S. Persons owning shares (directly, indirectly or constructively) in a non-U.S. 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 non-U.S. corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the non-U.S. 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 non-U.S. corporation and as a result thereof owns 10% or more of the voting power or value of such non-U.S. corporation, whether or not such non-U.S. corporation is a CFC. For any taxable year in which AGL determines that the 20% Gross Income Exception and the 20% Ownership Exception does not apply, AGL will provide to all U.S. Persons registered as shareholders of its shares a completed IRS Form 5471 or the relevant information necessary to complete the form.

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Failure to file IRS Form 5471 may result in penalties. In addition, U.S. shareholders should consult their tax advisors with respect to other information reporting requirements that may be applicable to them.

U.S. Persons holding the Company's shares should consider their possible obligation to file FINCEN Form 114, Foreign Bank and Financial Accounts Report, with respect to their shares. Additionally, such U.S. and non-U.S. persons should consider their possible obligations to annually report certain information with respect to the non-U.S. accounts with their U.S. federal income tax returns. Shareholders should consult their tax advisors with respect to these or any other reporting requirement which may apply with respect to their ownership of the Company's shares.

Tax-Exempt Shareholders. Tax-exempt entities will be required to treat certain subpart F insurance income, including RPII, that is includable 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 certain circumstances.

Dispositions of AGL's Shares. Subject to the discussions below relating to the potential application of the Code section 1248 and PFIC rules, holders of shares generally should recognize capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of 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 shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 20% for individuals and 21% 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 non-U.S. corporation and such person owned, directly, indirectly through non-U.S. 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). The Company believes that because of the dispersion of AGL's share ownership, no U.S. shareholder of AGL should be treated as owning (directly, indirectly through non-U.S. entities or constructively) 10% or more of the total voting power or value of AGL; to the extent this is the case this application of Code Section 1248 under the regular CFC rules should not apply to dispositions of AGL's shares. 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, AGL will provide a completed IRS Form 5471 or the relevant information necessary to complete the Form. Code section 1248 in conjunction with the RPII rules also applies to the sale or exchange of shares in a non-U.S. corporation if the non-U.S. corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10% U.S. Shareholder or whether the 20% Ownership Exception or 20% Gross Income Exception applies. Existing proposed regulations do not address whether Code section 1248 would apply if a non-U.S. corporation is not a CFC but the non-U.S. corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. The Company believes, however, that this application of Code section 1248 under the RPII rules should not apply to dispositions of AGL's shares because AGL will not be directly engaged in the insurance business. The Company 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 non-U.S. corporation will be a PFIC during a given year if (i) 75% or more of its gross income constitutes "passive income" (the 75% test) or (ii) 50% or more of its assets produce passive income (the 50% test) and once characterized as a PFIC will generally retain PFIC status for future taxable years with respect to its U.S. shareholders in the taxable year of the initial PFIC characterization.

If AGL were characterized as a PFIC during a given year, each U.S. Person holding AGL's 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 person (i) is a 10% U.S. Shareholder and AGL is a CFC or (ii) made a "qualified electing fund election" or "mark-to-market" election. It is uncertain that AGL would be able to provide its shareholders with the information necessary for a U.S. Person to make a qualified electing fund election. In addition, if AGL were considered a PFIC, 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 that might otherwise be available under U.S. federal income tax laws. 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 common shares during the three preceding taxable years (or shorter period during which the taxpayer held common shares). In general, the

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penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the common shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the common 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 AGL to U.S. shareholders that is characterized as a dividend and is not characterized as an excess distribution would not be eligible for reduced rates of tax as qualified dividend income. A U.S. Person that is a shareholder in a PFIC may also be subject to additional information reporting requirements, including the annual filing of IRS Form 8621.

For the above purposes, passive income generally includes interest, dividends, annuities and other investment income. The PFIC rules, as amended by the Tax Act, provide that income derived in the active conduct of an insurance business by a qualifying insurance corporation is not treated as passive income. The PFIC provisions also contain a look-through rule under which a non-U.S. 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. A second PFIC look-through rule would treat stock of a U.S. corporation owned by another U.S. corporation which is at least 25% owned (by value) by a non-U.S. corporation as a non-passive asset that generates non-passive income for purposes of determining whether the non-U.S. corporation is a PFIC.

The insurance income exception originally was 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 Company expects, for purposes of the PFIC rules, that each of AGL's insurance subsidiaries is unlikely to have financial reserves in excess of the reasonable needs of its insurance business in each year of operations. However, the Tax Act limits the insurance income exception to a non-U.S. insurance company that is a qualifying insurance corporation that would be taxable as an insurance company if it were a U.S. corporation and maintains insurance liabilities of more than 25% of such company's assets for a taxable year (or maintains insurance liabilities that at least equal or exceed 10% of its assets and it satisfies a facts and circumstances test that requires a showing that the failure to exceed the 25% threshold is due to run-off or rating agency circumstances) (the Reserve Test). Further, the IRS issued proposed regulations in 2015 intended to clarify the application of the PFIC provisions to an insurance company. These proposed regulations provide that a non-U.S. insurance company may only qualify for an exception to the PFIC rules if, among other things, the non-U.S. insurance company's officers and employees perform its substantial managerial and operational activities. This proposed regulation will not be effective until adopted in final form. The Company believes that, based on the application of the PFIC look-through rules described above and the Company's plan of operations for the current and future years, AGL should not be characterized as a PFIC. However, as the Company cannot predict the likelihood of finalization of the proposed regulations or the scope, nature, or impact of the proposed regulations on us, should they be formally adopted or enacted or whether the Company's non-U.S. insurance subsidiaries will be able to satisfy the Reserve Test in future years and the interaction of the PFIC look-through rules is not clear, no assurance may be given that the Company will not be characterized as a PFIC. Prospective investors should consult their tax advisor as to the effects of the PFIC rules.

Foreign tax credit. If U.S. Persons own a majority of AGL's common shares, only a portion of the current income inclusions, if any, under the CFC, RPII and PFIC rules and of dividends paid by AGL (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. The Company 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 "general" income. 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 on Distributions and Disposition Proceeds. Information returns may be filed with the IRS in connection with distributions on AGL's common shares and the proceeds from a sale or other disposition of AGL's common shares unless the holder of AGL's 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.

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United Kingdom

The following discussion is intended to be only a general guide to certain U.K. tax consequences of holding AGL common shares, under current law and the current practice of HMRC, either of which is subject to change at any time, possibly with retrospective effect. Except where otherwise stated, this discussion applies only to shareholders who are not (and have not recently been) resident or (in the case of individuals) domiciled for tax purposes in the U.K., who hold their AGL common shares as an investment and who are the absolute beneficial owners of their common shares. This discussion may not apply to certain shareholders, such as dealers in securities, life insurance companies, collective investment schemes, shareholders who are exempt from tax and shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment. Such shareholders may be subject to special rules.

The following statements do not purport to be a comprehensive description of all the U.K. considerations that may be relevant to any particular shareholder. Any person who is in any doubt as to their tax position should consult an appropriate professional tax adviser.

AGL's Tax Residency. AGL is not incorporated in the U.K., but effective November 6, 2013, the AGL Board manages its affairs with the intent to maintain its status as a company that is tax resident in the U.K.

Dividends. Under current U.K. tax law, AGL is not required to withhold tax at source from dividends paid to the holders of the AGL common shares.

Capital gains. U.K. tax is not normally charged on any capital gains realized by non-U.K. shareholders in AGL unless, in the case of a corporate shareholder, at or before the time the gain accrues, the shareholding is used in or for the purposes of a trade carried on by the non-resident shareholder through a permanent establishment in the U.K. or for the purposes of that permanent establishment. Similarly, an individual shareholder who carries on a trade, profession or vocation in the U.K. through a branch or agency may be liable for U.K. tax on the gain if such shareholder disposes of shares that are, or have been, used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency. This treatment applies regardless of the U.K. tax residence status of AGL.

Stamp Taxes. On the basis that AGL does not currently intend to maintain a share register in the U.K., there should be no U.K. stamp duty reserve tax on a purchase of common shares in AGL. A conveyance or transfer on sale of common shares in AGL will not be subject to U.K. stamp duty, provided that the instrument of transfer is not executed in the U.K. and does not relate to any property situated, or any matter or thing done, or to be done, in the U.K.

Description of Share Capital

The following summary of AGL's share capital is qualified in its entirety by the provisions of Bermuda law, AGL's memorandum of association and its Bye-Laws, copies of which are incorporated by reference as exhibits to this Annual Report on Form 10-K.

AGL's authorized share capital of \$5,000,000 is divided into 500,000,000 shares, par value U.S. \$0.01 per share, of which 103,026,253 common shares were issued and outstanding as of February 26, 2019. Except as described below, AGL's common shares have no pre-emptive 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 AGL's common shares are entitled to share equally, in proportion to the number of common shares held by such holder, in AGL's assets, if any remain after the payment of all AGL's debts and liabilities and the liquidation preference of any outstanding preferred shares. Under certain circumstances, AGL has the right to purchase all or a portion of the shares held by a shareholder. See "—Acquisition of Common Shares by AGL" below.

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 AGL's shares) of a shareholder are treated as "controlled shares" (as determined pursuant to section 958 of the Code) of any U.S. Person and such controlled shares constitute 9.5% or more of the votes conferred by AGL's 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 AGL's 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

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income with respect to AGL under the Code if AGL were a CFC as defined in the Code and if the ownership threshold under the Code were 9.5% (as defined in AGL's By-Laws as a 9.5% U.S. Shareholder). In addition, AGL's Board 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 AGL 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 AGL that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). 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. AGL's By-laws provide that it will use its best efforts to notify shareholders of their voting interests prior to any vote to be taken by them.

AGL's Board 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 AGL's Board may deem relevant. If any holder fails to respond to this request or submits incomplete or inaccurate information, AGL's Board may eliminate the shareholder's voting rights. All information provided by the shareholder will be treated by AGL as confidential information and shall be used by AGL 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

AGL's Board 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 the Company, any of its subsidiaries or any of its shareholders or indirect holders of shares or its Affiliates may occur as a result of such transfer (other than such as AGL's Board 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 AGL

Under AGL's By-Laws and subject to Bermuda law, if AGL's Board determines that any ownership of AGL's shares may result in adverse tax, legal or regulatory consequences to AGL, any of AGL's subsidiaries or any of AGL's shareholders or indirect holders of shares or its Affiliates (other than such as AGL's Board considers de minimis), AGL has the option, but not the obligation, to require such shareholder to sell to AGL or to a third party to whom AGL assigns 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 to represent the shares' fair market value (as defined in AGL's By-Laws).

Other Provisions of AGL's Bye-Laws

AGL's Board and Corporate Action

AGL's Bye-Laws provide that AGL's Board shall consist of not less than three and not more than 21 directors, the exact number as determined by the Board. AGL's Board consists of ten persons who are elected for annual terms.

Shareholders may only remove a director for cause (as defined in AGL's 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 can be filled by the Board if the vacancy occurs in those events set out in AGL's Bye-Laws as a result of death, disability, disqualification or resignation of a director, or from an increase in the size of the Board.

Generally under AGL's 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, including one relating to a merger, acquisition or business combination. Corporate action may also be taken by a unanimous written resolution of the Board

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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, 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 and by resolution of the shareholders.

Voting of Non-U.S. Subsidiary Shares

When AGL is required or entitled to vote at a general meeting (for example, an annual meeting) of any of AG Re, AGFOL or any other of its directly held non-U.S. subsidiaries, AGL's Board is required to refer the subject matter of the vote to AGL's shareholders and seek direction from such shareholders as to how they should vote on the resolution proposed by the non-U.S. subsidiary. AGL's Board in its discretion shall require that 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 AGRO and subsidiaries incorporated in the U.K.

Employees

As of December 31, 2018, the Company had 312 employees. None of the Company's employees are subject to collective bargaining agreements. The Company believes that employee relations are satisfactory.

Available Information

The Company maintains an Internet web site at www.assuredguaranty.com. The Company makes available, free of charge, on its web site (under www.assuredguaranty.com/sec-filings) the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act as soon as reasonably practicable after the Company files such material with, or furnishes it to, the SEC. The Company also makes available, free of charge, through its web site (under www.assuredguaranty.com/governance) links to the Company's Corporate Governance Guidelines, its Code of Conduct, AGL's Bye-Laws and the charters for its Board committees. In addition, the SEC maintains an Internet site (at www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company routinely posts important information for investors on its web site (under www.assuredguaranty.com/company-statements and, more generally, under the Investor Information tab at www.assuredguaranty.com/investor-information and Businesses tab at www.assuredguaranty.com/businesses). The Company uses this web site as a means of disclosing material information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Company

Statements, Investor Information and Businesses portions of the Company's web site, in addition to following the Company's press releases, SEC filings, public conference calls, presentations and webcasts.

The information contained on, or that may be accessed through, the Company's web site is not incorporated by reference into, and is not a part of, this report.

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ITEM 1A. RISK FACTORS

You should carefully consider the following information, together with the information contained in AGL's other filings with the SEC. The risks and uncertainties discussed below are not the only ones the Company faces. However, these are the risks that the Company's management believes are material. The Company may face additional risks or uncertainties that are not presently known to the Company or that management currently deems immaterial, and such risks or uncertainties also may impair its business or results of operations. The risks discussed below could result in a significant or material adverse effect on the Company's financial condition, results of operations, liquidity or business prospects.

Risks Related to the Company's Expected Losses

Estimates of expected losses are subject to uncertainties and may not be adequate to cover potential paid claims.

The financial guaranties issued by the Company's insurance subsidiaries insure the credit performance of the guaranteed obligations over an extended period of time, in some cases over 30 years, and, in most circumstances, the Company has no right to cancel such financial guaranties. As a result, the Company's estimate of ultimate losses on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability as well as changes in law or industry practices (such as the potential discontinuance of the publication of the London Interbank Offered Rate (LIBOR)) over the long duration of most contracts. If the Company's actual losses exceed its current estimate, this may result in adverse effects on the Company's financial condition, results of operations, liquidity, business prospects, financial strength ratings and ability to raise additional capital.

The determination of expected loss is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, the perceived strength of legal protections, governmental actions, negotiations and other factors that affect credit performance. The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance. As a result, the Company's current estimates of probable and estimable losses may not reflect the Company's future ultimate claims paid.

Certain sectors and large risks within the Company's insured portfolio have experienced credit deterioration in excess of the Company's initial expectations, which has led or may lead to losses in excess of the Company's initial expectations. The Company's expected loss models take into account current and expected future trends, which contemplate the impact of current and probable developments in the performance of the exposure. These factors, which are integral elements of the Company's reserve estimation methodology, are updated on a quarterly basis based on current information. Because such information changes over time, sometimes materially, the Company's projection of losses may also change materially. Much of the recent development in the Company's loss projections relate to the Company's insured Puerto Rico exposures. The Company had net par outstanding to general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations as of December 31, 2018 and December 31, 2017 aggregating to \$4.8 billion and \$5.0 billion, respectively, all of which was rated BIG under the Company's rating methodology. For a discussion of the Company's Puerto Rico risks, see Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

Risks Related to the Financial, Credit and Financial Guaranty Markets

Claim payments on obligations of the Commonwealth of Puerto Rico and its related authorities and public corporations insured by the Company in excess of those expected by the Company could have a negative effect on the

Company's liquidity and results of operations.

The Company has an aggregate \$4.8 billion net par exposure as of December 31, 2018 to the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and various obligations of its related authorities and public corporations, and claim payments on such insured exposures in excess of those expected by the Company could have a negative effect on the Company's liquidity and results of operations. Most of the Puerto Rican entities with obligations insured by the Company have defaulted on their debt service payments, and the Company has paid claims on them.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law by the President of the United States. PROMESA established a seven-member federal financial oversight board (Oversight Board) with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. PROMESA provides a legal framework under which the debt of the Commonwealth and its related authorities and public corporations may be voluntarily restructured, and grants the Oversight Board the sole authority to file restructuring petitions in a federal court to restructure the debt of the Commonwealth and its related authorities and public corporations if voluntary

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negotiations fail, provided that any such restructuring must be in accordance with an Oversight Board approved fiscal plan that respects the liens and priorities provided under Puerto Rico law.

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane on the Saffir-Simpson scale, causing loss of life and widespread devastation. Damage to the Commonwealth's infrastructure, including the power grid, water system and transportation system, was extensive, and has impacted the ability and willingness of Puerto Rican obligors to make timely and full debt service payments and participants' efforts to resolve the Commonwealth's financial issues under PROMESA.

The Company believes that a number of the actions taken by the Commonwealth, the Oversight Board and others with respect to obligations it insures are illegal or unconstitutional or both, and has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to these matters. Any adverse decisions in litigation relating to Puerto Rico may impact both the Company's exposure in Puerto Rico as well as the strength of its legal protections in other exposures. For example, on January 30, 2018, the Federal District Court in Puerto Rico held, in an action initiated by the Company relating to the Puerto Rico Highways and Transportation Authority (PRHTA), among other things, that (i) even though the special revenue provisions of the Bankruptcy Code protect a lien on pledged special revenues, those provisions do not mandate the turnover of pledged special revenues to the payment of bonds and (ii) actions to enforce liens on pledged special revenues remain stayed. A hearing on AGM and AGC's appeal of the trial court's decision to the United States Court of Appeals for the First Circuit ("First Circuit") was held on November 5, 2018.

The final shape, timing and validity of responses to Puerto Rico's distress eventually enacted or implemented under the auspices of PROMESA and the Oversight Board or otherwise, and the impact, after resolution of any legal challenges, of any such responses on obligations insured by the Company, are uncertain, but could be significant. Additional information about the Company's exposure to Puerto Rico and legal actions it has initiated may be found in Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, Exposure to Puerto Rico.

The Company's business, liquidity, financial condition and stock price may be adversely affected by developments in the U.S. and world-wide financial markets.

The Company's loss reserves, profitability, financial position, insured portfolio, investment portfolio, cash flow, statutory capital and stock price could be materially affected by the U.S. and global financial markets. Upheavals in the financial markets affect economic activity and employment and therefore can affect the Company's business. The global economic outlook remains uncertain, including the overall growth rate of the U.S. economy, the impact of Brexit in Europe and the impact of recent political trends on the global economic order. These and other risks could materially and negatively affect the Company's ability to access the capital markets, the cost of the Company's debt, the demand for its products, the amount of losses incurred on transactions it guarantees, the value of its investment portfolio (including its alternative investments), its financial ratings and the price of its common shares.

Some of the state and local governments and entities that issue obligations the Company insures are experiencing significant budget deficits and pension funding and revenue shortfalls that could result in increased credit losses or impairments and capital charges on those obligations.

Some of the state and local governments that issue the obligations the Company insures have experienced significant budget deficits and pension funding and revenue collection shortfalls that required them to significantly raise taxes and/or cut spending in order to satisfy their obligations. While the U.S. government has provided some financial support and although overall state revenues have increased in recent years, significant budgetary pressures remain, especially at the local government level and in relation to retirement obligations. Certain local governments, including ones that have issued obligations insured by the Company, have sought protection from creditors under chapter 9 of

the U.S. Bankruptcy Code as a means of restructuring their outstanding debt. In some recent instances where local governments were seeking to restructure their outstanding debt, and partially in response to concerns that materially reducing pension payments would lead to employee flight and, therefore, an inadequate level of local government services, pension and other obligations owed to workers were treated more favorably than senior bond debt owed to the capital markets. If the issuers of the obligations in the Company's public finance portfolio do not have sufficient funds to cover their expenses and are unable or unwilling to raise taxes, decrease spending or receive federal assistance, the Company may experience increased levels of losses or impairments on its public finance obligations, which could materially and adversely affect its business, financial condition and results of operations. If such issuers succeed in restructuring pension and other obligations owed to workers so that they are treated more favorably than obligations insured by the Company, such losses or impairments could be greater than the Company otherwise anticipated when the insurance was written.

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The Company's risk of loss on and capital charges for municipal exposures could also be exacerbated by rating agency downgrades of municipal exposure ratings. A downgraded municipal issuer may be unable to refinance maturing obligations or issue new debt, which could reduce the municipality's ability to service its debt. Downgrades could also affect the interest rate that the municipality must pay on its variable rate debt or for new debt issuance. Municipal exposure downgrades, as with other downgrades, result in an increase in the capital charges the rating agencies assess when evaluating the Company's capital adequacy in their rating models. Significant municipal downgrades could result in higher capital requirements for the Company in order to maintain its financial strength ratings.

In addition, obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, may be adversely affected by revenue declines resulting from reduced demand, changing demographics or other factors associated with an economy in which unemployment remains high, housing prices have not yet stabilized and growth is slow. These obligations, which may not necessarily benefit from financial support from other tax revenues or governmental authorities, may also experience increased losses if the revenue streams are insufficient to pay scheduled interest and principal payments.

Persistently low interest rate levels and credit spreads could adversely affect demand for financial guaranty insurance as well as the Company's financial condition.

Demand for financial guaranty insurance generally fluctuates with changes in market credit spreads. Credit spreads, which are based on the difference between interest rates on high-quality or "risk free" securities versus those on lower-rated or uninsured securities, fluctuate due to a number of factors and are sensitive to the absolute level of interest rates, current credit experience and investors' risk appetite. While higher than in 2016, when the benchmark AAA 30-year MMD index was at times below 2%, the average for that rate was 3.05% in 2018, still low by historical standards. When interest rates are low, or when the market is relatively less risk averse, the credit spread between high-quality or insured obligations versus lower-rated or uninsured obligations typically narrows. As a result, financial guaranty insurance typically provides lower interest cost savings to issuers than it would during periods of relatively wider credit spreads. Issuers are less likely to use financial guaranties on their new issues when credit spreads are narrow, this results in decreased demand or premiums obtainable for financial guaranty insurance, and a resulting reduction in the Company's results of operations. The continued persistence of low interest rate levels and or low credit spreads by historical standards could continue to dampen demand for financial guaranty insurance.

Conversely, in a deteriorating credit environment, credit spreads increase and become "wide", which increases the interest cost savings that financial guaranty insurance may provide and can result in increased demand for financial guaranties by issuers. However, if the weakening credit environment is associated with economic deterioration, the Company's insured portfolio could generate claims and loss payments in excess of normal or historical expectations. In addition, increases in market interest rate levels could reduce new capital markets issuances and, correspondingly, a decreased volume of insured transactions.

Competition in the Company's industry may adversely affect its revenues.

As described in greater detail under "Competition" in "Item 1. Business," the Company can face competition, either in the form of current or new providers of credit enhancement or in terms of alternative structures, including uninsured offerings, or pricing competition. Increased competition could have an adverse effect on the Company's insurance business.

The Company's financial position, results of operations and cash flows may be adversely affected by fluctuations in foreign exchange rates.

The Company's reporting currency is the U.S. dollar. The functional currencies of AGL's primary insurance and reinsurance subsidiaries are the U.S. dollar. The Company's non-U.S. subsidiaries maintain both assets and liabilities in currencies different from their functional currency, which exposes the Company to changes in currency exchange rates. In addition, assets of non-U.S. subsidiaries are primarily invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations.

The principal currencies creating foreign exchange risk are the British pound sterling and the European Union euro. The Company's purchase of MBIA UK in 2017 increased its exposure to the British pound sterling. The Company cannot accurately predict the nature or extent of future exchange rate variability between these currencies or relative to the U.S. dollar. Foreign exchange rates are sensitive to factors beyond the Company's control. The pending separation of the U.K. from the EU may increase currency fluctuations in the next several years. See "Risks Related to the Financial, Credit and Financial Guaranty Markets - Brexit may adversely impact exposures insured by the Company and may also adversely impact the Company through currency exchange rates."

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The Company does not engage in active management, or hedging, of its foreign exchange rate risk. Therefore, fluctuation in exchange rates between the U.S. dollar and the British pound sterling or the European Union euro could adversely impact the Company's financial position, results of operations and cash flows. See Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Sensitivity of Investment Portfolio to Foreign Exchange Risk and Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Sensitivity of Premiums Receivable to Foreign Exchange Risk.

The Company may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the LIBOR. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. While regulators have suggested substitute rates, including the Secured Overnight Financing Rate, the impact of the discontinuance of LIBOR, if it occurs, will be contract-specific. Issuers of obligations the Company insures have obligations, assets and hedges that reference LIBOR, and some of the obligations the Company insures reference LIBOR. Some of the debt issued by the Company, as well as committed capital securities from which it benefits, also pay interest tied to LIBOR. See Part II, Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities. The Company cannot at this time predict the impact of the discontinuance of LIBOR, if it occurs, on every obligor and obligation the Company enhances.

The Company's international operations expose it to less predictable credit and legal risks.

The Company pursues new business opportunities in international markets. The underwriting of obligations of an issuer in a foreign country involves the same process as that for a domestic issuer, but additional risks must be addressed, such as the evaluation of foreign currency exchange rates, foreign business and legal issues, and the economic and political environment of the foreign country or countries in which an issuer does business. Changes in such factors could impede the Company's ability to insure, or increase the risk of loss from insuring, obligations in the countries in which it currently does business and limit its ability to pursue business opportunities in other countries.

The Company's investment portfolio may be adversely affected by credit, interest rate and other market changes.

The Company's operating results are affected, in part, by the performance of its investment portfolio which primarily consists of fixed-income securities and short-term investments. As of December 31, 2018, fixed-maturity securities and short-term investments had a fair value of approximately \$10.8 billion. Credit losses and changes in interest rates could have an adverse effect on the Company's shareholders' equity and net income. Credit losses result in realized losses on the Company's investment portfolio, which reduce net income and shareholders' equity. Changes in interest rates can affect both shareholders' equity and investment income. For example, if interest rates decline, funds reinvested will earn less than expected, reducing the Company's future investment income compared to the amount it would earn if interest rates had not declined. However, the value of the Company's fixed-rate investments would generally increase if interest rates decreased, resulting in an unrealized gain on investments included in shareholders' equity. Conversely, if interest rates increase, the value of the fixed-rate investment portfolio will be reduced, resulting in unrealized losses that the Company is required to include in shareholders' equity as other comprehensive income (OCI). Accordingly, interest rate increases could reduce the Company's shareholders' equity.

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

The market value of the investment portfolio also may be adversely affected by general developments in the capital markets, including decreased market liquidity for investment assets, market perception of increased credit risk with respect to the types of securities held in the portfolio, downgrades of credit ratings of issuers of investment assets and/or foreign exchange movements impacting investment assets. In addition, the Company invests in securities insured by other financial guarantors, the market value of which may be affected by the rating instability of the relevant financial guarantor.

The Company also invests a portion of its excess capital in alternative investments, which also may be affected by credit, interest rate and other market changes as well as factors specific to those investments. See "Risks Related to the Company's Business - Alternative investments may not result in the benefits anticipated."

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Brexit may adversely impact exposures insured by the Company and may also adversely impact the Company through currency exchange rates.

As described above in Part 1, Item 1, Business, Regulation, on June 23, 2016, a referendum was held in the U.K. in which a majority voted to exit the EU, known as "Brexit". The U.K. government served notice to the European Council on March 29, 2017 of its desire to withdraw in accordance with Article 50 of the Treaty on European Union, and there has been no approval by the U.K. parliament of any withdrawal agreement between the EU and the U.K. Failing such approval or the implementation of an agreed extension to the U.K.'s planned departure date, the it is currently expected that the U.K. will leave the EU on March 29, 2019 under a No-Deal Brexit, leaving considerable uncertainty as to the ongoing terms of the U.K.'s relationship with the EU, including the terms of trade between the U.K. and the EU, and a likely negative impact on all parties. Any resulting political, social and economic uncertainty and changes arising from Brexit, including a No-Deal Brexit if it occurs, may have a negative impact on the economies of the U.K. as well as non-U.K. EU and EEA countries, which may increase the probability of losses on obligations insured by the Company that are exposed to risks in the U.K. and non-U.K. EU and EEA countries. Given the lack of clarity on the ultimate post-Brexit relationship between the U.K. and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the U.K.

Brexit, especially a No-Deal Brexit if it occurs, may also impact currency exchange rates. The Company reports its accounts in U.S. dollars, while some of its income, expenses and assets are denominated in other currencies, primarily the pound sterling and the euro. For example, from December 31, 2015 to December 31, 2016, which period encompasses the Brexit vote, the value of pound sterling dropped from £0.68 per dollar to £0.81 per dollar, while the euro dropped from €0.83 per dollar to €0.95 per dollar. For the year ended 2016, the Company recognized losses of approximately \$21 million in the consolidated statement of operations, net of tax, and approximately \$32 million in OCI, net of tax, for foreign currency translation, that were primarily driven by the exchange rate fluctuations of the pound sterling. Currency exchange rates may also move materially as the terms of Brexit become known.

See also "Changes in applicable laws and regulations resulting from Brexit may adversely affect the Company" under Risks Related to GAAP and Applicable Law.

Risks Related to the Company's Business

The Company's insurance products may subject it to significant risks from individual or correlated exposures.

The Company is exposed to the risk that issuers of debt that it insures or other counterparties may default in their financial obligations, whether as a result of insolvency, lack of liquidity, operational failure or other reasons. Similarly, the Company could be exposed to corporate credit risk if a corporation or financial institution is the originator or servicer of loans, mortgages or other assets backing structured securities that the Company has insured.

In addition, because the Company insures or reinsures municipal bonds, it may have significant exposures to single municipal risks; see Part II, Item 7, Management's Discussion and Analysis, Insured Portfolio, for a list of the Company's largest ten municipal risks by revenue source. While the Company's risk of a complete loss, where it would have to pay the entire principal amount of an issue of bonds and interest thereon with no recovery, is generally lower for municipal bonds, most of which are backed by tax or other revenues, than for corporate bonds, there can be no assurance that a single default by a municipality would not have a material adverse effect on the Company's results of operations or financial condition.

The Company's ultimate exposure to a single risk may exceed its underwriting guidelines (caused by, for example, acquisitions, reassumptions, or amortization of the portfolio faster than the single risk), and an event with respect to a single risk may cause a significant loss. The Company seeks to reduce this risk by managing exposure to large single

risks, as well as concentrations of correlated risks, through tracking its aggregate exposure to single risks in its various lines of business and establishing underwriting criteria to manage risk aggregations. It has also in the past obtained third party reinsurance for such exposure. The Company may insure and has insured individual public finance and asset-backed risks well in excess of \$1 billion. Should the Company's risk assessments prove inaccurate and should the applicable limits prove inadequate, the Company could be exposed to larger than anticipated losses, and could be required by the rating agencies to hold additional capital against insured exposures whether or not downgraded by the rating agencies.

The Company is exposed to correlation risk across the various assets the Company insures. During periods of strong macroeconomic performance, stress in an individual transaction generally occurs for idiosyncratic reasons or as a result of issues in a single asset class (so impacting only transactions in that sector). During a broad economic downturn, a wider range of the Company's insurance portfolio could be exposed to stress at the same time. This stress may manifest itself in ratings downgrades, which may require more capital, or in actual losses, or both. In addition, while the Company's portfolio has

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experienced many catastrophic events in the past without material loss, unexpected catastrophic events may have a material adverse effect upon the Company's insured portfolio and/or its investment portfolios. For example, Hurricane Maria negatively impacted the Company's exposure to Puerto Rico and its related authorities and public corporations. See "Risks Related to the Financial, Credit and Financial Guaranty Markets - Claim payments on obligations of the Commonwealth of Puerto Rico insured by the Company in excess of those expected by the Company could have a negative effect on the Company's liquidity and results of operations."

Some of the Company's direct financial guaranty products may be riskier than traditional financial guaranty insurance.

As of December 31, 2018 and 2017, 2% of the Company's financial guaranty direct exposures were originally executed 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. In general, the Company structures credit derivative transactions such that circumstances giving rise to its obligation to make payments are similar to those for financial guaranty policies and generally occur when issuers fail to make payments on the underlying reference obligations. The tenor of credit derivatives exposures, like exposure under financial guaranty insurance policies, is also generally for as long as the reference obligation remains outstanding.

Nonetheless, credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. (ISDA) documentation and operate 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 it issues a financial guaranty insurance policy on a direct primary basis. In addition, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events, unlike financial guaranty insurance policies.

Acquisitions may not result in the benefits anticipated and may subject the Company to non-monetary consequences.

From time to time the Company evaluates financial guaranty portfolio and company acquisition opportunities and conducts diligence activities with respect to transactions with other financial guarantors and financial services companies. For example, during 2015 the Company acquired Radian Asset and in 2016 the Company acquired CIFGNA, and in each case merged it with and into AGC, with AGC as the surviving company of the merger. In January 2017, the Company acquired MBIA UK, and on June 1, 2018, the Company closed a transaction with SGI under which AGC assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio and AGM reassumed a book of business previously ceded to SGI by AGM. These acquisitions as well as any future acquisitions of other financial guaranty portfolios or companies or other financial services companies may involve some or all of the various risks commonly associated with acquisitions, including, among other things: (a) failure to adequately identify and value potential exposures and liabilities of the target portfolio or entity; (b) difficulty in estimating the value of the target portfolio or entity; (c) potential diversion of management's time and attention; (d) exposure to asset quality issues of the target entity; (e) difficulty and expense of integrating the operations, systems and personnel of the target entity; and (f) concentration of exposures, including exposures which may exceed single risk limits, due to the addition of the target portfolio. Such acquisitions may also have unintended consequences on ratings assigned by the rating agencies to the Company or its subsidiaries (see "— Risks Related to the Company's Financial Strength and Financial Enhancement Ratings") or on the applicability of laws and regulations to the Company's existing businesses. These or other factors may cause any past or future acquisitions of financial guaranty portfolios or companies or other financial services companies not to result in the benefits to the Company anticipated when the acquisition was agreed. Past or future acquisitions may also subject the Company to non-monetary consequences that may or may not have been anticipated or fully mitigated at the time of the acquisition.

Alternative investments may not result in the benefits anticipated.

From time to time in order to deploy a portion of the Company's excess capital the Company may invest in business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. The alternative investments group has been investigating a number of such opportunities, including, among others, both controlling and non-controlling investments in investment managers. For example, in February 2017 the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers. In September 2017, the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an independent investment advisory firm specializing in SMAs. In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. The Company continues to investigate additional opportunities to make alternative investments, including, among others, both controlling and non-controlling investments in investment managers, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

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Alternative investments may be riskier than many of the other investments the Company makes, and may not result in the benefits anticipated at the time of the investment. In addition, although the Company uses what it believes to be excess capital to make alternative investments, measures of required capital can fluctuate and such investments may not be given much, or any, value under the various rating agency, regulatory and internal capital models to which the Company is subject. Also, alternative investments may be less liquid than most of the Company's other investments and so may be difficult to convert to cash or investments that do receive credit under the capital models to which the Company is subject. See "Risks Related to the Company's Capital and Liquidity Requirements — The ability of AGL and its subsidiaries to meet their liquidity needs may be limited."

The Company is dependent on key executives and the loss of any of these executives, or its inability to retain other key personnel, could adversely affect its business.

The Company's success substantially depends upon its ability to attract and retain qualified employees and upon the ability of its senior management and other key employees to implement its business strategy. The Company believes there are only a limited number of available qualified executives in the business lines in which the Company competes. The Company relies substantially upon the services of Dominic J. Frederico, President and Chief Executive Officer, and other executives. Although the Company has designed its executive compensation with the goal of retaining and creating incentives for its executive officers, the Company may not be successful in retaining their services. The loss of the services of any of these individuals or other key members of the Company's management team could adversely affect the implementation of its business strategy.

The Company is dependent on its information technology and that of certain third parties, and a cyberattack, security breach or failure in such systems could adversely affect the Company's business.

The Company relies upon information technology and systems, including technology and systems provided by or interfacing with those of third parties, to support a variety of its business processes and activities. In addition, the Company has collected and stored confidential information including, in connection with certain loss mitigation and due diligence activities related to its structured finance business, personally identifiable information. While the Company does not believe that the financial guaranty industry is as inherently prone to cyberattacks as industries relating to, for example, payment card processing, banking, critical infrastructure or defense contracting, the Company's data systems and those of third parties on which it relies are still vulnerable to security breaches due to cyberattacks, viruses, malware, ransomware, hackers and other external hazards, as well as inadvertent errors, equipment and system failures, and employee misconduct. Problems in or security breaches of these systems could, for example, result in lost business, reputational harm, the disclosure or misuse of confidential or proprietary information, incorrect reporting, inaccurate loss projections, legal costs and regulatory penalties.

The Company's business operations rely on the continuous availability of its computer systems as well as those of certain third parties. In addition to disruptions caused by cyberattacks or other data breaches, such systems may be adversely affected by natural and man-made catastrophes. The Company's failure to maintain business continuity in the wake of such events, particularly if there were an interruption for an extended period, could prevent the timely completion of critical processes across its operations, including, for example, claims processing, treasury and investment operations and payroll. These failures could result in additional costs, loss of business, fines and litigation.

The Company and its subsidiaries are subject to numerous laws and regulations of a number of jurisdictions regarding its information systems, particularly with regard to personally identifiable information. The Company's failure to comply with these requirements, even absent a security breach, could result in penalties, reputational harm or difficulty in obtaining desired consents from regulatory authorities.

The Board of Directors oversees the risk management process, including cybersecurity risks, and engages with management on risk management issues, including cybersecurity issues. The Audit Committee of the Board of Directors has specific responsibility for overseeing information technology matters, including cybersecurity risk, and the Risk Oversight Committee of the Board of Directors addresses cybersecurity matters as part of its enterprise risk management responsibilities.

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Risks Related to the Company's Financial Strength and Financial Enhancement Ratings

A downgrade of the financial strength or financial enhancement ratings of any of the Company's insurance and reinsurance subsidiaries would adversely affect its business and prospects and, consequently, its results of operations and financial condition.

The financial strength and financial enhancement ratings assigned by S&P, Moody's, KBRA and Best to each of AGL's insurance and reinsurance subsidiaries represent such rating agencies' opinions of the insurer's financial strength and ability to meet ongoing obligations to policyholders and cedants in accordance with the terms of the financial guaranties it has issued or the reinsurance agreements it has executed. The ratings also reflect qualitative factors, such as the rating agencies' opinion of an insurer's business strategy and franchise value, the anticipated future demand for its product, the composition of its insured portfolio, and its capital adequacy, profitability and financial flexibility. Issuers, investors, underwriters, ceding companies and others consider the Company's financial strength or financial enhancement ratings an important factor when deciding whether or not to utilize a financial guaranty or purchase reinsurance from one of the Company's insurance or reinsurance subsidiaries. A downgrade by a rating agency of the financial strength or financial enhancement ratings of one or more of AGL's subsidiaries could impair the Company's financial condition, results of operation, liquidity, business prospects or other aspects of the Company's business.

The ratings assigned by the rating agencies that publish financial strength or financial enhancement ratings on AGL's insurance subsidiaries are subject to review and may be lowered by a rating agency as a result of a number of factors, including, but not limited to, the rating agency's revised stress loss estimates for the Company's insurance portfolio, adverse developments in the Company's or the subsidiary's financial conditions or results of operations due to underwriting or investment losses or other factors, changes in the rating agency's outlook for the financial guaranty industry or in the markets in which the Company operates, or a revision in the rating agency's capital model or rating methodology. Their reviews can occur at any time and without notice to the Company and could result in a decision to downgrade, revise or withdraw the financial strength or financial enhancement ratings of AGL's insurance and reinsurance subsidiaries. For example, while all of the rating agencies that rate AGL subsidiaries with exposure to Puerto Rico have indicated that their evaluations of such AGL subsidiaries already take into account stress scenarios related to developments in Puerto Rico, actual developments in Puerto Rico beyond what a rating agency previously considered could cause that rating agency to review its ratings of such AGL subsidiaries.

The Company periodically assesses the value of each rating assigned to each of its companies, and may as a result of such assessment request that a rating agency add or drop a rating from certain of its companies. For example, the KBRA ratings were first assigned to MAC in 2013, to AGM in 2014, to AGC in 2016 and to AGE in 2018, and the Best rating was first assigned to AGRO in 2015, while a Moody's rating was never requested for MAC and was dropped from AG Re and AGRO in 2015. In January 2017, AGC requested that Moody's withdraw its financial strength rating of AGC, but Moody's denied that request and still rates AGC.

The insurance subsidiaries' financial strength ratings are an important competitive factor in the financial guaranty insurance and reinsurance markets. If the financial strength or financial enhancement ratings of one or more of the Company's insurance subsidiaries were reduced below current levels, the Company expects that would reduce the number of transactions that would benefit from the Company's insurance; consequently, a downgrade by rating agencies could harm the Company's new business production, results of operations and financial condition.

In addition, a downgrade may have a negative impact on the Company in respect of transactions that it has insured or reinsurance that it has assumed. For example, a downgrade of one of the Company's insurance subsidiaries may result in increased claims under financial guaranties such subsidiary has issued. Under variable rate demand obligations insured by AGM, downgrades past rating levels specified in the transaction documents could result in the municipal

obligor paying a higher rate of interest and in such obligations amortizing on a more accelerated basis than expected when the obligations originally were issued; if the municipal obligor is unable to make such interest or principal payments, AGM may receive a claim under its financial guaranty. Under interest rate swaps insured by AGM, downgrades past specified rating levels could entitle the municipal obligor's swap counterparty to terminate the swap; if the municipal obligor owed a termination payment as a result and were unable to make such payment, AGM may receive a claim if its financial guaranty guaranteed such termination payment. For more information about increased claim payments the Company may potentially make, see Part II, Item 8, Financial Statements and Supplementary Data, Note 6, Contracts Accounted for as Insurance, Ratings Impact on Financial Guaranty Business. In certain other transactions, beneficiaries of financial guaranties issued by the Company's insurance subsidiaries may have the right to cancel the credit protection offered by the Company, which would result in the loss of future premium earnings and the reversal of any fair value gains recorded by the Company. In addition, a downgrade of AG Re, AGC or AGRO could result in certain ceding companies recapturing business that they had ceded to these reinsurers. See "The downgrade of the financial strength ratings of AG Re, AGC or AGRO would give certain reinsurance counterparties the right to

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recapture certain ceded business, which would lead to a reduction in the Company's unearned premium reserve and related earnings" below.

Furthermore, if the financial strength ratings of AGE were downgraded, AGM may be required to contribute additional capital to AGE pursuant to the terms of the support arrangement for AGE, as described in "Item 1. Business, Regulation, United Kingdom, Material Contracts."

The downgrade of the financial strength ratings of AG Re, AGC or AGRO would give certain reinsurance counterparties the right to recapture certain ceded business, which would lead to a reduction in the Company's unearned premium reserve and related earnings.

The downgrade of the financial strength ratings of AG Re, AGC or AGRO gives certain reinsurance counterparties the right to recapture certain ceded business, which would involve payments by the Company and lead to a reduction in the Company's unearned premium reserve and related earnings. As of December 31, 2018, if each third party company ceding business to AG Re, AGC and/or AGRO had a right to recapture such business, and chose to exercise such right, the aggregate amounts that AG Re, AGC and AGRO could be required to pay to all such companies would be approximately \$42 million, \$326 million and \$10 million, respectively.

Actions taken by the rating agencies with respect to capital models and rating methodology of the Company's business or changes in capital charges or downgrades of transactions within its insured portfolio may adversely affect its ratings, business prospects, results of operations and financial condition.

The rating agencies from time to time have evaluated the Company's capital adequacy under a variety of scenarios and assumptions. The rating agencies do not always supply clear guidance on their approach to assessing the Company's capital adequacy and the Company may disagree with the rating agencies' approach and assumptions. For example, S&P assesses each individual exposure (including potential new exposures) insured by the Company based on a variety of factors, including the nature of the exposure, the nature of the support or credit enhancement for the exposure, its tenor, and its expected and actual performance. This assessment determines the amount of capital the Company is required to maintain against that exposure to maintain its financial strength ratings under S&P's capital adequacy model. Sometimes the rating agencies consider the amount of additional capital that could be required for certain risks or sectors under certain stress scenarios based on their views of developments in the market, as each have done recently with respect to the Company's exposures to Puerto Rico. Factors influencing the rating agencies are beyond management's control and not always known to the Company. In the event of an actual or perceived deterioration in creditworthiness, or a change in a rating agency's capital model or rating methodology, that rating agency may require the Company to increase the amount of capital allocated to support the affected exposures, regardless of whether losses actually occur, or against potential new business. Significant reductions in the rating agencies' assessments of exposures in the Company's insured portfolio can produce significant increases in the amount of capital required for the Company to maintain its financial strength ratings under the rating agencies' capital adequacy models, which may require the Company to seek additional capital. The amount of such capital required may be substantial, and may not be available to the Company on favorable terms and conditions or at all. Accordingly, the Company cannot ensure that it will seek or be able to raise additional capital. The failure to raise additional required capital could result in a downgrade of the Company's ratings and thus have an adverse impact on its business, results of operations and financial condition. See "Risks Related to the Company's Capital and Liquidity Requirements—The Company may require additional capital from time to time, including from soft capital and liquidity credit facilities, which may not be available or may be available only on unfavorable terms."

Risks Related to the Company's Capital and Liquidity Requirements

Significant claim payments may reduce the Company's liquidity.

Claim payments reduce the Company's invested assets and result in reduced liquidity and net investment income, even if the Company is reimbursed in full over time and does not experience ultimate loss on a particular policy. Since the financial crisis in 2008, many of the claims paid by the Company were with respect to insured U.S. RMBS securities. More recently, there has been credit deterioration with respect to certain insured Puerto Rico exposures, and the Company has paid material claims with respect to a number of those exposures. The Company had net par outstanding to general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.8 billion and \$5.0 billion, respectively, as of December 31, 2018 and December 31, 2017, all of which was rated BIG under the Company's rating methodology. For a discussion of the Company's Puerto Rico risks, see Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

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The Company plans for future claim payments. If the amount of future claim payments is significantly more than that projected by the Company, however, the Company's ability to make other claim payments and its financial condition, financial strength ratings and business prospects could be adversely affected.

The Company may require additional capital from time to time, including from soft capital and liquidity credit facilities, which may not be available or may be available only on unfavorable terms.

The Company's capital requirements depend on many factors, primarily related to its in-force book of business and rating agency capital requirements. Failure to raise additional capital if and as needed may result in the Company being unable to write new business and may result in the ratings of the Company and its subsidiaries being downgraded by one or more rating agency. The Company's access to external sources of financing, as well as the cost of such financing, is dependent on various factors, including the market supply of such financing, the Company's long-term debt ratings and insurance financial strength ratings and the perceptions of its financial strength and the financial strength of its insurance subsidiaries. The Company's debt ratings are in turn influenced by numerous factors, such as financial leverage, balance sheet strength, capital structure and earnings trends. If the Company's need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for the Company to raise the necessary capital.

Future capital raises for equity or equity-linked securities could also result in dilution to the Company's shareholders. In addition, some securities that the Company could issue, such as preferred stock or securities issued by the Company's operating subsidiaries, may have rights, preferences and privileges that are senior to those of its common shares.

Financial guaranty insurers and reinsurers typically rely on providers of lines of credit, excess of loss reinsurance facilities and similar capital support mechanisms (often referred to as "soft capital") to supplement their existing capital base, or "hard capital." The ratings of soft capital providers directly affect the level of capital credit which the rating agencies give the Company when evaluating its financial strength. The Company currently maintains soft capital facilities with providers having ratings adequate to provide the Company's desired capital credit. For example, effective January 1, 2018, AGC, AGM and MAC entered into a \$400 million aggregate excess of loss reinsurance facility of which \$180 million was placed with an unaffiliated reinsurer, that covers certain U.S. public finance exposures insured or reinsured by those companies. (For additional information, see Part II, Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance). However, no assurance can be given that the Company will be able to renew any existing soft capital facilities or that one or more of the rating agencies will not downgrade or withdraw the applicable ratings of such providers in the future. In addition, the Company may not be able to replace a downgraded soft capital provider with an acceptable replacement provider for a variety of reasons, including the unwillingness of an acceptable replacement provider to provide the Company with soft capital commitments or the lack of adequately-rated institutions that are actively providing soft capital facilities. Furthermore, the rating agencies may in the future change their methodology and no longer give credit for soft capital, which may necessitate the Company having to raise additional capital in order to maintain its ratings.

An increase in AGL's subsidiaries' leverage ratio may prevent them from writing new insurance.

Insurance regulatory authorities impose capital requirements on AGL's insurance subsidiaries. These capital requirements, which include leverage ratios and surplus requirements, may limit the amount of insurance that the subsidiaries may write. The insurance subsidiaries have several alternatives available to control their leverage ratios, including obtaining capital contributions from affiliates, 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, a change in regulatory capital requirements or otherwise, or a disproportionate increase in the amount of risk in force, could increase a subsidiary's

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 the Company considers unfavorable), or add to its capital base to maintain its financial strength ratings. Failure to maintain regulatory capital levels could limit that subsidiary's ability to write new business.

The Company's holding companies' ability to meet their obligations may be constrained.

Each of AGL, AGUS and AGMH is a holding company and, as such, has no direct operations of its own. None of the holding companies expects to have any significant operations or assets other than its ownership of the shares of its subsidiaries.

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The insurance company subsidiaries' ability to pay dividends and make other payments depends, among other things, upon their financial condition, results of operations, cash requirements, and compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their states of domicile. Restrictions applicable to AGM, AGC and MAC, and to AG Re and AGRO, are described under the "Regulation, United States, State Dividend Limitations" and "Regulation, Bermuda, Restrictions on Dividends and Distributions" sections of "Item 1. Business." Such dividends and permitted payments are currently expected to be the primary source of funds for the holding companies to meet ongoing cash requirements, including operating expenses, any future debt service payments and other expenses, and to pay dividends to their respective shareholders. Accordingly, if the insurance subsidiaries cannot pay sufficient dividends or make other permitted payments at the times or in the amounts that are required, that would have an adverse effect on the ability of AGL, AGUS and AGMH to satisfy their ongoing cash requirements and on their ability to pay dividends to shareholders.

If AGRO were to pay dividends to its U.S. holding company parent and that U.S. holding company were to pay dividends to its Bermudian parent AG Re, such dividends would be subject to U.S. withholding tax at a rate of 30%.

The ability of AGL and its subsidiaries to meet their liquidity needs may be limited.

Each of AGL, AGUS and AGMH requires liquidity, either in the form of cash or in the ability to easily sell investment assets for cash, in order to meet its payment obligations, including, without limitation, its operating expenses, interest on debt and dividends on common shares, and to make capital investments in operating subsidiaries. The Company's operating subsidiaries require substantial liquidity in order to meet their respective payment and/or collateral posting obligations, including under financial guaranty insurance policies, CDS contracts or reinsurance agreements. They also require liquidity to pay operating expenses, reinsurance premiums, dividends to AGUS or AGMH for debt service and dividends to AGL, as well as, where appropriate, to make capital investments in their own subsidiaries. In addition, the Company may require substantial liquidity to fund any future acquisitions. The Company cannot give any assurance that the liquidity of AGL and its subsidiaries will not be adversely affected by adverse market conditions, changes in insurance regulatory law or changes in general economic conditions.

AGL anticipates that its liquidity needs will be met by the ability of its operating subsidiaries to pay dividends or to make other payments; external financings; investment income from its invested assets; and current cash and short-term investments. The Company expects that its subsidiaries' need for liquidity will be met by the operating cash flows of such subsidiaries; external financings; investment income from their invested assets; and proceeds derived from the sale of their investment portfolios, significant portions of which are in the form of cash or short-term investments. All of these sources of liquidity are subject to market, regulatory or other factors that may impact the Company's liquidity position at any time. As discussed above, AGL's insurance subsidiaries are subject to regulatory and rating agency restrictions limiting their ability to declare and to pay dividends and make other payments to AGL. As further noted above, external financing may or may not be available to AGL or its subsidiaries in the future on satisfactory terms.

In addition, investment income at AGL and its subsidiaries may fluctuate based on interest rates, defaults by the issuers of the securities AGL or its subsidiaries hold in their respective investment portfolios, the performance of alternative investments, or other factors that the Company does not control. Also, the value of the Company's investments may be adversely affected by changes in interest rates, credit risk and capital market conditions and therefore may adversely affect the Company's potential ability to sell investments quickly and the price which the Company might receive for those investments. Alternative investments may be particularly difficult to sell at adequate prices or at all.

Risks Related to Taxation

Changes in U.S. tax laws could reduce the demand or profitability of financial guaranty insurance, or negatively impact the Company's investment portfolio.

The Tax Act included provisions that could result in a reduction of supply, such as the termination of advance refunding bonds. Any such lower volume of municipal obligations could impact the amount of such obligations that could benefit from insurance. The supply of municipal bonds in 2018 was below that in 2017, possibly due at least in part to the impact of the Tax Act. In addition, the reduction of the U.S. corporate income tax rate to 21% could make municipal obligations less attractive to certain institutional investors such as banks and property and casualty insurance companies, resulting in lower demand for municipal obligations.

Further, future 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, may lower volume and demand for municipal obligations and also may adversely impact the Company's investment portfolio, a

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significant portion of which is invested in tax-exempt instruments. These adverse changes may adversely affect the value of the Company's tax-exempt portfolio, or its liquidity.

Certain of the Company's non-U.S. subsidiaries may be subject to U.S. tax.

The Company manages its business so that AGL and its non-U.S. subsidiaries (other than AGRO) operate in such a manner that none of them should be subject to U.S. federal 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). However, because there is considerable uncertainty as to the activities which constitute being engaged in a trade or business within the U.S., the Company cannot be certain that the IRS will not contend successfully that AGL or any of its non-U.S. subsidiaries (other than AGRO) is/are engaged in a trade or business in the U.S. If AGL and its non-U.S. subsidiaries (other than AGRO) were considered to be engaged in a trade or business in the U.S., 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.

AGL, AG Re and AGRO may become subject to taxes in Bermuda after March 2035, which may have a material adverse effect on the Company's results of operations and on an investment in the Company.

The Bermuda Minister of Finance, under Bermuda's Exempted Undertakings Tax Protection Act 1966, as amended, has given AGL, AG Re 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 AGL, AG Re or AGRO, or any of AGL's or its subsidiaries' operations, shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Minister of Finance's assurance, the Company cannot be certain that it will not be subject to Bermuda tax after March 31, 2035.

U.S. Persons who hold 10% or more of AGL's shares directly or through non-U.S. entities may be subject to taxation under the U.S. controlled non-U.S. corporation rules.

Each 10% U.S. shareholder of a non-U.S. corporation that is a CFC at any time during a taxable year that owns shares in the non-U.S. corporation directly or indirectly through non-U.S. entities on the last day of the non-U.S. corporation's taxable year on which it is a CFC, 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. In addition, upon a sale of shares of a CFC, 10% U.S. shareholders may be subject to U.S. federal income tax on a portion of their gain at ordinary income rates.

The Company believes that because of the dispersion of the share ownership in AGL, no U.S. Person who owns AGL's shares directly or indirectly through non-U.S. entities should be treated as a 10% U.S. shareholder of AGL or of any of its non-U.S. subsidiaries. However, AGL's shares may not be as widely dispersed as the Company believes due to, for example, the application of certain ownership attribution rules, and no assurance may be given that a U.S. Person who owns the Company's shares will not be characterized as a 10% U.S. shareholder, in which case such U.S. Person may be subject to taxation under U.S. CFC rules.

U.S. Persons who hold shares may be subject to U.S. income taxation at ordinary income rates on their proportionate share of the Company's related person insurance income.

If the following conditions are true, then a U.S. Person who owns AGL's shares (directly or indirectly through non-U.S. 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 the RPII of such Foreign Insurance Subsidiary (as defined above)

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:

the Company is 25% or more owned directly, indirectly through non-U.S. entities or by attribution by U.S. Persons;

the gross RPII of AG Re or any other AGL non-U.S. subsidiary engaged in the insurance business that has not made an election under section 953(d) of the Code to be treated as a U.S. corporation for all U.S. tax purposes or are CFCs owned directly or indirectly by AGUS (each, with AG Re, a Foreign Insurance Subsidiary) equals or exceeds 20% of such Foreign Insurance Subsidiary's gross insurance income in any taxable year; and

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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 the Company's shares.

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 a Foreign Insurance Subsidiary (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. holder of shares or any person related to such holder) will depend on a number of factors, including the geographic distribution of a Foreign Insurance Subsidiary's business and the identity of persons directly or indirectly insured or reinsured by a Foreign Insurance Subsidiary. The Company believes that each of its Foreign Insurance Subsidiaries either should not in the foreseeable future have RPII income which equals or exceeds 20% of its gross insurance income or have direct or indirect insureds, as provided for by RPII rules, that directly or indirectly own 20% or more of either the voting power or value of AGL's shares. However, the Company cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond its control.

U.S. Persons who dispose of AGL's shares may be subject to U.S. income taxation at dividend tax rates on a portion of their gain, if any.

The meaning of the RPII provisions and the application thereof to AGL and its Foreign Insurance Subsidiaries is uncertain. The RPII rules in conjunction with section 1248 of the Code provide that if a U.S. Person disposes of shares in a non-U.S. insurance corporation in which U.S. Persons own (directly, indirectly, through non-U.S. entities or by attribution) 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 dividend 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. This provision applies 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.

In the case of AGL's shares, these RPII rules should not apply to dispositions of shares because AGL is not itself 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 the RPII rules 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.

U.S. Persons who hold common shares will be subject to adverse tax consequences if AGL is considered to be a "passive foreign investment company" for U.S. federal income tax purposes.

If AGL is considered a PFIC for U.S. federal income tax purposes, a U.S. Person who owns any shares of AGL will be subject to adverse tax consequences that could materially adversely affect its investment, including subjecting the investor to both a greater tax liability than might otherwise apply and an interest charge. The Company believes that AGL was not a PFIC for U.S. federal income tax purposes for taxable years through 2018 and, based on the application of certain PFIC look-through rules and the Company's plan of operations for the current and future years, should not be a PFIC in the future. However, as discussed above, the Tax Act limits the insurance income exception to a non-U.S. insurance company that is a qualifying insurance corporation that would be taxable as an insurance company if it were a U.S. corporation and maintains insurance liabilities of more than 25% of such company's assets

for a taxable year (or maintains insurance liabilities that at least equal to 10% of its assets and it satisfies a facts and circumstances test that requires a showing that the failure to exceed the 25% threshold is due to run-off or rating agency circumstances) (the Reserve Test).

In addition, the IRS issued proposed regulations in 2015 intended to clarify the application of the PFIC provisions to an insurance company. These proposed regulations provide that a non-U.S. insurance company may only qualify for an exception to the PFIC rules if, among other things, the non-U.S. insurance company's officers and employees perform its substantial managerial and operational activities. This proposed regulation will not be effective unless and until adopted in final form. The Company cannot predict the likelihood of finalization of the proposed regulations or the scope, nature, or impact of the proposed regulations on it, should they be formally adopted or enacted or whether its Foreign Insurance subsidiaries will be able to satisfy the Reserve Test in future years, and the interaction of the PFIC look-through rules is not clear, no assurance may be given that the Company will not be characterized as a PFIC.

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

The Tax Act was passed by the U.S. Congress and was signed into law on December 22, 2017, with certain provisions 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 and United States persons investing in such companies. For example, the Tax Act includes a BEAT that could make affiliate reinsurance between United States and non-U.S. members of the group economically unfeasible and a current tax on global intangible income that may result in an increase in U.S. corporate income tax imposed on U.S. group members with respect to certain earnings at their non-U.S. subsidiaries, and revises the rules applicable to PFICs and CFCs. Although the Company is currently unable to predict the ultimate impact of the Tax Act on its business, shareholders and results of operations, it is possible that the Tax Act may increase the U.S. federal income tax liability of the U.S. members of its group that cede risk to non-U.S. group members and may affect the timing and amount of U.S. federal income taxes imposed on certain U.S. shareholders. Furthermore, it is possible that other legislation could be introduced and enacted by the current Congress or future Congresses that could have an adverse impact on the Company.

U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the U.S. is a PFIC, or whether U.S. Persons would be required to include in their gross income the "subpart F income" of a CFC or RPII are subject to change, possibly on a retroactive basis. There currently are only recently proposed regulations regarding the application of the PFIC rules to insurance companies, and the regulations regarding RPII have been in proposed form since 1991. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Company 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.

An ownership change under Section 382 of the Code could have adverse U.S. federal tax consequences.

If AGL were to issue equity securities in the future, including in connection with any strategic transaction, or if previously issued securities of AGL were to be sold by the current holders, AGL may experience an "ownership change" within the meaning of Section 382 of the Code. In general terms, an ownership change would result from transactions increasing the aggregate ownership of certain stockholders in AGL's stock by more than 50 percentage points over a testing period (generally three years). If an ownership change occurred, the Company's ability to use certain tax attributes, including certain built-in losses, credits, deductions or tax basis and/or the Company's ability to continue to reflect the associated tax benefits as assets on AGL's balance sheet, may be limited. The Company cannot give any assurance that AGL will not undergo an ownership change at a time when these limitations could materially adversely affect the Company's financial condition.

A change in AGL's U.K. tax residence or its ability to otherwise qualify for the benefits of income tax treaties to which the U.K. is a party could adversely affect an investment in AGL's common shares.

AGL is not incorporated in the U.K. and, accordingly, is only resident in the U.K. for U.K. tax purposes if it is "centrally managed and controlled" in the U.K. Central management and control constitutes the highest level of control of a company's affairs. AGL believes it is entitled to take advantage of the benefits of income tax treaties to which the U.K. is a party on the basis that it has established central management and control in the U.K. AGL has obtained confirmation that there is a low risk of challenge to its residency status from HMRC under the facts as they stand today. The Board intends to manage the affairs of AGL in such a way as to maintain its status as a company that is tax-resident in the U.K. for U.K. tax purposes and to qualify for the benefits of income tax treaties to which the U.K. is a party. However, the concept of central management and control is a case-law concept that is not comprehensively defined in U.K. statute. In addition, it is a question of fact. Moreover, tax treaties may be revised in a way that causes AGL to fail to qualify for benefits thereunder. Accordingly, a change in relevant U.K. tax law or in tax treaties to which the U.K. is a party, or in AGL's central management and control as a factual matter, or other events, could

adversely affect the ability of Assured Guaranty to manage its capital in the efficient manner that it contemplated in establishing U.K. tax residence.

Changes in U.K. tax law or in AGL's ability to satisfy all the conditions for exemption from U.K. taxation on dividend income or capital gains in respect of its direct subsidiaries could affect an investment in AGL's common shares.

As a U.K. tax resident, AGL is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to applicable exemptions. The rate of corporation tax is currently 19%.

• With respect to income, the dividends that AGL receives from its subsidiaries should be exempt from U.K. corporation tax under the exemption contained in section 931D of the Corporation Tax Act 2009.

• With respect to capital gains, if AGL were to dispose of shares in its direct subsidiaries or if it were deemed to have done so, it may realize a chargeable gain for U.K. tax purposes. Any tax charge would be based on AGL's

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original acquisition cost. It is anticipated that any such future gain should qualify for exemption under the substantial shareholding exemption in Schedule 7AC to the Taxation of Chargeable Gains Act 1992. However, the availability of such exemption would depend on facts at the time of disposal, in particular the “trading” nature of the relevant subsidiary. There is no statutory definition of what constitutes “trading” activities for this purpose and in practice reliance is placed on the published guidance of HMRC.

A change in U.K. tax law or its interpretation by HMRC, or any failure to meet all the qualifying conditions for relevant exemptions from U.K. corporation tax, could affect Assured Guaranty’s financial results of operations or its ability to provide returns to shareholders.

Assured Guaranty's financial results may be affected by measures taken in response to the OECD BEPS project.

The Organization for Economic Co-operation and Development (OECD) published its final reports on Base Erosion and Profit Shifting (the BEPS Reports) in October 2015. The recommended actions include measures to address the abuse of double tax treaties, and an updating of the definition of a “permanent establishment” and the rules for attributing profit to a permanent establishment. There are also recommended actions relating to the goal of ensuring that transfer pricing outcomes are in line with value creation, noting that the current rules may facilitate the transfer of risks or capital away from countries where the economic activity takes place. In response to this, the U.K. Government has already introduced legislation to implement changes to transfer pricing, hybrid financial instruments and the deductibility of interest and to impose country-by-country reporting obligations. The U.K. Government has also ratified the multilateral instrument, that was developed as a result of the BEPS Report, with regard to changes to the U.K. double tax treaties. Any further changes in U.K. tax law or changes in U.S. tax law in response to the BEPS Reports could adversely affect Assured Guaranty’s tax liability.

A U.K. tax, the diverted profits tax (DPT), which is levied at 25%, came into effect from April 1, 2015, and, in substance, effectively anticipated some of the recommendations emerging from the BEPS Reports. This is an anti-avoidance measure, aimed at protecting the U.K. tax base against the diversion of profits away from the U.K. tax charge. In particular, DPT may apply to profits generated by economic activities carried out in the U.K., that are not taxed in the U.K. by reason of arrangements between companies in the same multinational group and involving a low-tax jurisdiction, including co-insurance and reinsurance. It is currently unclear whether DPT would constitute a creditable tax for U.S. foreign tax credit purposes. If any member of the Assured Guaranty group is liable to DPT, this could adversely affect the Company's results of operations.

An adverse adjustment under U.K. legislation governing the taxation of U.K. tax resident holding companies on the profits of their non-U.K. subsidiaries could adversely impact Assured Guaranty’s tax liability.

Under the U.K. “controlled foreign company” regime, the income profits of non-U.K. resident companies may, in certain circumstances, be attributed to controlling U.K. resident shareholders for U.K. corporation tax purposes. The non-U.K. resident members of the Assured Guaranty group intend to operate and manage their levels of capital in such a manner that their profits would not be taxed on AGL under the U.K. CFC regime. Assured Guaranty has obtained clearance from HMRC that none of the profits of the non-U.K. resident members of the Assured Guaranty group should be subject to U.K. tax as a result of attribution under the CFC regime on the facts as they currently stand. However, a change in the way in which Assured Guaranty operates or any further change in the CFC regime, resulting in an attribution to AGL of any of the income profits of any of AGL’s non-U.K. resident subsidiaries for U.K. corporation tax purposes, could adversely affect Assured Guaranty’s financial results of operations.

Risks Related to GAAP and Applicable Law

Changes in the fair value of the Company's insured credit derivatives portfolio may subject net income to volatility.

The Company is required to mark-to-market certain derivatives that it insures, including CDS that are considered derivatives under GAAP. Although there is no cash flow effect from this "marking-to-market," net changes in the fair value of the derivative are reported in the Company's consolidated statements of operations and therefore affect its reported earnings. As a result of such treatment, and given the principal balance of the Company's CDS portfolio, small changes in the market pricing for insurance of CDS will generally result in the Company recognizing material gains or losses, with material market price increases generally resulting in material reported losses under GAAP. Accordingly, the Company's GAAP earnings will be more volatile than would be suggested by the actual performance of its business operations and insured portfolio.

The fair value of a credit derivative will be affected by any event causing changes in the credit spread (i.e., the difference in interest rates between comparable securities having different credit risk) on an underlying security referenced in the credit derivative. Common events that may cause credit spreads on an underlying municipal or corporate security

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referenced in a credit derivative to fluctuate include changes in the state of national or regional economic conditions, industry cyclicalities, 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. 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 and AGM. For discussion of the Company's fair value methodology for credit derivatives, see Part II, Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement.

If a credit derivative is held to maturity and no credit loss is incurred, any unrealized gains or losses previously reported would be offset as the transactions reach maturity. Due to the complexity of fair value accounting and the application of GAAP requirements, future amendments or interpretations of relevant accounting standards may cause the Company to modify its accounting methodology in a manner which may have an adverse impact on its financial results.

Change in industry and other accounting practices could impair the Company's reported financial results and impede its ability to do business.

Changes in or the issuance of new accounting standards, as well as any changes in the interpretation of current accounting guidance, may have an adverse effect on the Company's reported financial results, including future revenues, and may influence the types and/or volume of business that management may choose to pursue. See Part II, Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation, for a discussion of the future application of accounting standards.

Changes in or inability to comply with applicable law could adversely affect the Company's ability to do business.

The Company's businesses are subject to direct and indirect regulation under state insurance laws, federal securities, commodities and tax laws affecting public finance and asset backed obligations, and federal regulation of derivatives, as well as applicable laws in the other countries in which the Company operates. Future legislative, regulatory, judicial or other legal changes in the jurisdictions in which the Company does business may adversely affect its ability to pursue its current mix of business, thereby materially impacting its financial results by, among other things, limiting the types of risks it may insure, lowering applicable single or aggregate risk limits, increasing required reserves or capital, increasing the level of supervision or regulation to which the Company's operations may be subject, imposing restrictions that make the Company's products less attractive to potential buyers, lowering the profitability of the Company's business activities, requiring the Company to change certain of its business practices and exposing it to additional costs (including increased compliance costs).

If the Company fails to comply with applicable insurance laws and regulations it could be exposed to fines, the loss of insurance licenses, limitations on the right to originate new business and restrictions on its ability to pay dividends, all of which could have an adverse impact on its business results and prospects. If an insurance company's surplus declines below minimum required levels, the insurance regulator could impose additional restrictions on the insurer or initiate insolvency proceedings. AGM, AGC and MAC may increase surplus by various means, including obtaining capital contributions from the Company, purchasing reinsurance or entering into other loss mitigation arrangements, reducing the amount of new business written or obtaining regulatory approval to release contingency reserves. From time to time, AGM, MAC and AGC have obtained approval from their regulators to release contingency reserves

based on losses and, in the case of AGM and MAC, also based on the expiration of their insured exposure.

AGL's ability to pay dividends may be constrained by certain insurance regulatory requirements and restrictions.

AGL is subject to Bermuda regulatory requirements that affect its ability to pay dividends on common shares and to make other payments. Under the Bermuda Companies Act 1981, as amended, AGL may declare or pay a dividend only if it has reasonable grounds for believing that it is, and after the payment would be, able to pay its liabilities as they become due, and if the realizable value of its assets would not be less than its liabilities. While AGL currently intends to pay dividends on its common shares, investors who require dividend income should carefully consider these risks before investing in AGL. In addition, if, pursuant to the insurance laws and related regulations of Bermuda, Maryland and New York, AGL's insurance subsidiaries cannot pay sufficient dividends to AGL at the times or in the amounts that it requires, it would have an adverse

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effect on AGL's ability to pay dividends to shareholders. See "Risks Related to the Company's Capital and Liquidity Requirements—The ability of AGL and its subsidiaries to meet their liquidity needs may be limited."

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

Before a person can acquire control of a U.S. or U.K. insurance company, prior written approval must be obtained from the insurance commissioner of the state or country where the insurer is domiciled. Because a person acquiring 10% or more of AGL's common shares would indirectly control the same percentage of the stock of its U.S. insurance company subsidiaries, the insurance change of control laws of Maryland, New York and the U.K. would likely apply to such a transaction. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AGL, including through transactions, and in particular unsolicited transactions, that some or all of its shareholders might consider to be desirable. While AGL's Bye-Laws limit the voting power of any shareholder to less than 10%, the Company cannot provide assurances that the applicable regulatory body would agree that a shareholder who owned 10% or more of its common shares did not control the applicable insurance company subsidiary, notwithstanding the limitation on the voting power of such shares.

Changes in applicable laws and regulations resulting from Brexit may adversely affect the Company.

As described above in Part 1, Item 1, Business, Regulation, on June 23, 2016, a referendum was held in the U.K. in which a majority voted to exit the EU, known as "Brexit", and there has been no approval by the U.K. Parliament of the withdrawal agreement between the EU and the U.K. Failing such approval or the implementation of an agreed extension to the U.K.'s planned departure date, it is currently expected that the U.K. will leave the EU on March 29, 2019 under a No-Deal Brexit.

Given the lack of clarity on the ultimate post-Brexit relationship between Great Britain and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the U.K. For example, the Company cannot determine whether U.K. authorized financial services firms such as AGE will continue to enjoy passporting rights to the other 27 EEA states after Brexit. This question will be particularly acute in the event of a No-Deal Brexit because the loss of passporting could occur as early as March 29, 2019, rather than at the end of the transition period under the withdrawal agreement of December 31, 2020. As a consequence, Assured Guaranty is establishing a new subsidiary in Paris, France, in order to continue with the ability to write new business, and to service existing business, in those other EEA states. That new subsidiary is unlikely to be fully licensed prior to a No-Deal Brexit, should that occur. While the Company believes that, in the event of a No-Deal Brexit or in the absence of applicable transition rules, those other EEA states outside the U.K. will permit the Company to continue to service existing business in their states, there can be no assurance that this will occur, nor can the Company fully determine the impact on its business and operations if it does not occur.

See also "Brexit may adversely impact exposures insured by the Company and may also impact the Company through currency exchange rates" under Risks Related to the Financial, Credit and Guaranty Markets.

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Risks Related to AGL's Common Shares

The market price of AGL's common shares may be volatile, which could cause the value of an investment in the Company to decline.

The market price of AGL's common shares has experienced, and may continue to experience, significant volatility. Numerous factors, including many over which the Company has no control, may have a significant impact on the market price of its common shares. These risks include those described or referred to in this "Risk Factors" section as well as, among other things:

- investor perceptions of the Company, its prospects and that of the financial guaranty industry and the markets in which the Company operates;
- the Company's operating and financial performance;
- the Company's access to financial and capital markets to raise additional capital, refinance its debt or replace existing senior secured credit and receivables-backed facilities;
- the Company's ability to repay debt;
- the Company's dividend policy;
- the amount of share repurchases authorized by the Company;
- future sales of equity or equity-related securities;
- changes in earnings estimates or buy/sell recommendations by analysts; and
- general financial, economic and other market conditions.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of AGL's common shares, regardless of its operating performance.

Furthermore, future sales or other issuances of AGL equity may adversely affect the market price of its common shares.

AGL's common shares are equity securities and are junior to existing and future indebtedness.

As equity interests, AGL's common shares rank junior to indebtedness and to other non-equity claims on AGL and its assets available to satisfy claims on AGL, including claims in a bankruptcy or similar proceeding. For example, upon liquidation, holders of AGL debt securities and shares of preferred stock and creditors would receive distributions of AGL's available assets prior to the holders of AGL common shares. Similarly, creditors, including holders of debt securities, of AGL's subsidiaries, have priority on the assets of those subsidiaries. Future indebtedness may restrict payment of dividends on the common shares.

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of common shares, dividends are payable only when and if declared by AGL's Board or a duly authorized committee of the Board. Further, the common shares place no restrictions on its business or operations or on its ability

to incur indebtedness or engage in any transactions, subject only to the voting rights available to stockholders generally.

Provisions in the Code and AGL's Bye-Laws may reduce or increase the voting rights of its common shares.

Under the Code, AGL's Bye-Laws and contractual arrangements, certain shareholders have their voting rights limited to less than one vote per share, resulting in other shareholders having voting rights in excess of one vote per share. Moreover, the relevant provisions of the Code and AGL's Bye-Laws may have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership.

More specifically, pursuant to the relevant provisions of the Code, if, and so long as, the common shares of a shareholder are treated as "controlled shares" (as determined under section 958 of the Code) of any U.S. Person and such

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controlled shares constitute 9.5% or more of the votes conferred by AGL's issued shares, the voting rights with respect to the controlled shares of such U.S. Person (a 9.5% U.S. Shareholder) are limited, in the aggregate, to a voting power of less than 9.5%, under a formula specified in AGL's 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%. For these purposes, "controlled shares" include, among other things, all shares of AGL that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code).

In addition, the Board 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 the Company or any of the Company's subsidiaries or any shareholder or its affiliates. AGL's Bye-Laws provide that shareholders will be notified of their voting interests prior to any vote taken by them.

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

AGL also has the authority under its 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 a request for information or submits incomplete or inaccurate information in response to a request, the Company may, in its sole discretion, eliminate such shareholder's voting rights.

Provisions in AGL's Bye-Laws may restrict the ability to transfer common shares, and may require shareholders to sell their common shares.

AGL's Board may decline to approve or register a transfer of any common shares (1) if it appears to the Board, after taking into account the limitations on voting rights contained in AGL's Bye-Laws, that any adverse tax, regulatory or legal consequences to AGL, any of its subsidiaries or any of its shareholders may occur as a result of such transfer (other than such as the Board considers to be de minimis), or (2) subject to any applicable requirements of or commitments to the NYSE, 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.

AGL's Bye-Laws also provide that if the Board determines that share ownership by a person may result in adverse tax, legal or regulatory consequences to the Company, any of the subsidiaries or any of the shareholders (other than such as the Board considers to be de minimis), then AGL has the option, but not the obligation, to require that shareholder to sell to AGL or to third parties to whom AGL assigns 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal executive offices of AGL and AG Re consist of approximately 8,250 square feet of office space located in Hamilton, Bermuda; the lease for this space expires in April 2021 and is renewable at the option of the Company.

The U.S. subsidiaries of the Company lease 103,500 square feet of office space in New York City; the lease expires in February 2032, with an option, subject to certain conditions, to renew for five years at a fair market rent. The U.S. subsidiaries also lease office space in San Francisco. In addition, AGE leases space in London.

Management believes its office space is adequate for its current and anticipated needs.

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ITEM 3. LEGAL PROCEEDINGS

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

In addition, in the ordinary course of their respective businesses, certain of the Company's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods or prevent losses in the future. For example, the Company has commenced a number of legal actions in the U.S. District Court for the District of Puerto Rico to enforce its rights with respect to the obligations it insures of Puerto Rico and various of its related authorities and public corporations. See the "Exposure to Puerto Rico" section of Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, for a description of such actions. See also the "Recovery Litigation" section of Part II, Item 8, Financial Statements and Supplementary Data, Note 5, Expected Losses to be Paid, for a description of recovery litigation unrelated to Puerto Rico. The amounts, if any, the Company will recover in these and other proceedings to recover losses are uncertain, and recoveries, or failure to obtain recoveries, in any one or more of these proceedings during any quarter or year could be material to the Company's results of operations in that particular quarter or year.

The Company establishes accruals for litigation and regulatory matters to the extent it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is disclosed, including matters discussed below. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

The Company receives subpoenas duces tecum and interrogatories from regulators from time to time.

On November 28, 2011, Lehman Brothers International (Europe) (in administration) (LBIE) sued AG Financial Products Inc. (AGFP), an affiliate of AGC which in the past had provided credit protection to counterparties under CDS. AGC acts as the credit support provider of AGFP under these CDS. LBIE's complaint, which was filed in the Supreme Court of the State of New York, asserted a claim for breach of the implied covenant of good faith and fair dealing based on AGFP's termination of nine credit derivative transactions between LBIE and AGFP and asserted claims for breach of contract and breach of the implied covenant of good faith fair dealing based on AGFP's termination of 28 other credit derivative transactions between LBIE and AGFP and AGFP's calculation of the termination payment in connection with those 28 other credit derivative transactions. Following defaults by LBIE, AGFP properly terminated the transactions in question in compliance with the agreement between AGFP and LBIE, and calculated the termination payment properly. AGFP calculated that LBIE owes AGFP approximately \$29 million in connection with the termination of the credit derivative transactions, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately \$1.4 billion. AGFP filed a motion to dismiss the claims for breach of the implied covenant of good faith in LBIE's complaint, and on March 15, 2013, the court granted AGFP's motion to dismiss in respect of the count relating to the nine credit derivative transactions and narrowed LBIE's claim with respect to the 28 other credit derivative transactions. LBIE's administrators disclosed in an April 10, 2015 report to LBIE's unsecured creditors that LBIE's valuation expert has calculated LBIE's claim for damages in aggregate for the 28 transactions to range between a minimum of approximately \$200 million and a maximum of approximately \$500 million, depending on what adjustment, if any, is made for AGFP's credit risk and excluding any applicable interest. AGFP filed a motion for summary judgment on the remaining causes of action asserted by LBIE and on AGFP's counterclaims, and on July 2, 2018, the court granted in part and denied in part AGFP's motion. The court

dismissed, in its entirety, LBIE's remaining claim for breach of the implied covenant of good faith and fair dealing and also dismissed LBIE's claim for breach of contract solely to the extent that it is based upon AGFP's conduct in connection with the auction. With respect to LBIE's claim for breach of contract, the court held that there are triable issues of fact regarding whether AGFP calculated its loss reasonably and in good faith. On October 1, 2018, AGFP filed an appeal with the Appellate Division of the Supreme Court of the State of New York, First Judicial Department, seeking reversal of the portions of the lower court's ruling denying AGFP's motion for summary judgment with respect to LBIE's sole remaining claim for breach of contract. On January 17, 2019, the Appellate Division affirmed the Supreme Court's decision, holding that the lower court correctly determined that there are triable issues of fact regarding whether AGFP calculated its loss reasonably and in good faith.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Company

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

Name	Age	Position(s)
Dominic J. Frederico	66	President and Chief Executive Officer; Deputy Chairman
Robert A. Bailenson	52	Chief Financial Officer
Ling Chow	48	General Counsel and Secretary
Russell B. Brewer II	61	Chief Surveillance Officer
Bruce E. Stern	64	Executive Officer
Howard W. Albert	59	Chief Risk Officer
Stephen Donnarumma	56	Chief Credit Officer

Dominic J. Frederico has been a director of AGL since the Company's 2004 initial public offering and the President and Chief Executive Officer of AGL since December 2003. Mr. Frederico served as Vice Chairman of ACE Limited from 2003 until 2004 and served as President and Chief Operating Officer of ACE Limited and Chairman of ACE INA Holdings, Inc. from 1999 to 2003. Mr. Frederico was a director of ACE Limited from 2001 through May 2005. From 1995 to 1999 Mr. Frederico served in a number of executive positions with ACE Limited. Prior to joining ACE Limited, Mr. Frederico spent 13 years working for various subsidiaries of American International Group.

Robert A. Bailenson has been Chief Financial Officer of AGL since June 2011. Mr. Bailenson has been with Assured Guaranty and its predecessor companies since 1990. Mr. Bailenson became Chief Accounting Officer of AGM in July 2009 and has been Chief Accounting Officer of AGL since May 2005 and Chief Accounting Officer of AGC since 2003. He was Chief Financial Officer and Treasurer of AG Re from 1999 until 2003 and was previously the Assistant Controller of Capital Re Corp., the Company's predecessor.

Ling Chow has been General Counsel and Secretary of AGL since January 1, 2018. Ms. Chow previously served as Deputy General Counsel and Assistant Secretary of AGL from May 2015 and as Assured Guaranty's U.S. General Counsel from June 2016. Prior to that, Ms. Chow served as Deputy General Counsel of Assured Guaranty's U.S. subsidiaries in several capacities from 2004. Before joining Assured Guaranty in 2002, Ms. Chow was an associate at Brobeck, Phleger & Harrison LLP, Cahill Gordon & Reindel and LeBoeuf, Lamb, Greene & MacRae, L.L.P.

Russell B. Brewer II has been Chief Surveillance Officer of AGL since November 2009 and Chief Surveillance Officer of AGC and AGM since July 2009 and has also been responsible for information technology at Assured Guaranty since April 2015. Mr. Brewer has been with AGM since 1986. Mr. Brewer was Chief Risk Management Officer of AGM from September 2003 until July 2009 and Chief Underwriting Officer of AGM from September 1990 until September 2003. Mr. Brewer was also a member of the Executive Management Committee of AGM. He was a Managing Director of AGMH from May 1999 until July 2009. From March 1989 to August 1990, Mr. Brewer was Managing Director, Asset Finance Group, of AGM. Prior to joining AGM, Mr. Brewer was an Associate Director of Moody's Investors Service, Inc.

Bruce E. Stern has been Executive Officer of AGC and AGM since July 2009. Mr. Stern was General Counsel, Managing Director, Secretary and Executive Management Committee member of AGM from 1987 until July 2009. Prior to joining AGM, Mr. Stern was an associate at the New York office of Cravath, Swaine & Moore. Mr. Stern has served as Chairman of the Association of Financial Guaranty Insurers since April 2010.

Howard W. Albert has been Chief Risk Officer of AGL since May 2011. Prior to that, he was Chief Credit Officer of AGL from 2004 to April 2011. Mr. Albert joined Assured Guaranty in September 1999 as Chief Underwriting Officer of Capital Re Company, the predecessor to AGC. Before joining Assured Guaranty, he was a Senior Vice President with Rothschild Inc. from February 1997 to August 1999. Prior to that, he spent eight years at Financial Guaranty Insurance Company from May 1989 to February 1997, where he was responsible for underwriting guaranties of asset-backed securities and international infrastructure transactions. Prior to that, he was employed by Prudential Capital, an investment arm of The

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Prudential Insurance Company of America, from September 1984 to April 1989, where he underwrote investments in asset-backed securities, corporate loans and project financings.

Stephen Donnarumma has been the Chief Credit Officer of AGC since 2007, of AGM since its 2009 acquisition, and of MAC since its 2012 capitalization. Mr. Donnarumma has been with Assured Guaranty since 1993. Over the past 25 years, Mr. Donnarumma has held a number of positions at Assured Guaranty, including Deputy Chief Credit Officer of AGL, Chief Operating Officer and Chief Underwriting Officer of AG Re, Chief Risk Officer of AGC, and Senior Managing Director, Head of Mortgage and Asset-backed Securities of AGC. Prior to joining Assured Guaranty, Mr. Donnarumma was with Financial Guaranty Insurance Company from 1989 until 1993, where his responsibilities included underwriting domestic and international financial guaranty transactions. Prior to that, he served as a Director of Credit Risk Analysis at Fannie Mae from 1987 until 1989. Mr. Donnarumma was also an analyst with Moody's Investors Services from 1985 until 1987.

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PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

AGL's common shares are listed on the NYSE under the symbol "AGO." On February 26, 2019, the approximate number of shareholders of record at the close of business on that date was 73.

AGL is a holding company whose principal source of income is dividends from its operating subsidiaries. The ability of the operating subsidiaries to pay dividends to AGL and AGL's ability to pay dividends to its shareholders are each subject to legal and regulatory restrictions. The declaration and payment of future dividends will be at the discretion of AGL's Board and will be dependent upon the Company's profits and financial requirements and other factors, including legal restrictions on the payment of dividends and such other factors as the Board deems relevant. For each of the four quarters of 2018 and 2017, AGL paid cash dividends in the amount of \$0.16 and \$0.1425 per common share per quarter, respectively. For more information concerning AGL's dividends, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources and Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements.

2018 Share Purchases

In 2018, the Company repurchased a total of 13.2 million common shares for approximately \$500 million at an average price of \$37.76 per share. From time to time, the Board authorizes the repurchase of common shares. Most recently, on February 27, 2019, the Board approved an additional \$300 million of share repurchases, and the remaining authorization, as of March 1, 2019, is \$350 million. The Company expects future common share repurchases under the current authorization to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases are at the discretion of management and will depend on a variety of factors, including availability of funds at the holding companies, other potential uses for such funds, market conditions, the Company's capital position, legal requirements and other factors. The repurchase authorization may be modified, extended or terminated by the Board at any time. It does not have an expiration date. See Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity for additional information about share repurchases and authorizations.

Issuer's Purchases of Equity Securities

The following table reflects purchases of AGL common shares made by the Company during Fourth Quarter 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program(2)
October 1 - October 31	964,544	\$ 41.47	964,544	\$ 177,873,174
November 1 - November 30	989,741	\$ 40.43	989,434	\$ 137,873,183
December 1 - December 31	1,038,954	\$ 38.50	1,038,954	\$ 97,873,184
Total	2,993,239	\$ 40.09	2,992,932	

(1)

After giving effect to repurchases since the beginning of 2013 through March 1, 2019, the Company has repurchased a total of 95.7 million common shares for approximately \$2,764 million, excluding commissions, at an average price of \$28.87 per share.

(2) Excludes commissions.

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Performance Graph

Set forth below are a line graph and a table comparing the dollar change in the cumulative total shareholder return on AGL's common shares from December 31, 2013 through December 31, 2018 as compared to the cumulative total return of the Standard & Poor's 500 Stock Index, the cumulative total return of the Standard & Poor's 500 Financials Sector GICS Level 1 Index and the cumulative total return of the Russell Midcap Financial Services Index. The Company added the Russell Midcap Financial Services Index in 2018 because it believes that this index, which includes the Company, provides a useful comparison to other companies in the financial services sector, and excludes companies that are included in the Standard & Poor's 500 Financials Sector GICS Level 1 Index but are many times larger than the Company. The chart and table depict the value on December 31 of each year from 2013 through 2018 of a \$100 investment made on December 31, 2013, with all dividends reinvested:

	Assured Guaranty	S&P 500 Index	S&P 500 Financials Sector GICS Level 1 Index	Russell Midcap Financial Services Index
12/31/2013	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
12/31/2014	112.19	113.68	115.18	114.64
12/31/2015	116.12	115.24	113.38	117.34
12/31/2016	169.07	129.02	139.17	135.11
12/31/2017	153.79	157.17	169.98	157.56
12/31/2018	176.79	150.27	147.82	141.74

Source: Calculated from total returns published by Bloomberg.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read together with the other information contained in this Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Form 10-K. Certain prior year balances have been reclassified to conform to the current year's presentation.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in millions, except per share amounts)				
Statement of operations data:					
Revenues:					
Net earned premiums	\$548	\$690	\$864	\$766	\$570
Net investment income	398	418	408	423	403
Net realized investment gains (losses)	(32)	40	(29)	(26)	(60)
Net change in fair value of credit derivatives	112	111	98	728	823
Fair value gains (losses) on financial guaranty variable interest entities (FG VIEs)	14	30	38	38	255
Bargain purchase gain and settlement of pre-existing relationships	—	58	259	214	—
Commutation gains (losses)	(16)	328	8	28	23
Other income (loss)	(22)	64	31	36	(20)
Total revenues	1,002	1,739	1,677	2,207	1,994
Expenses:					
Loss and loss adjustment expenses	64	388	295	424	126
Amortization of deferred acquisition costs (DAC)	16	19	18	20	25
Interest expense	94	97	102	101	92
Other operating expenses	248	244	245	231	220
Total expenses	422	748	660	776	463
Income (loss) before (benefit) provision for income taxes	580	991	1,017	1,431	1,531
Provision (benefit) for income taxes	59	261	136	375	443
Net income (loss)	\$521	\$730	\$881	\$1,056	\$1,088
Earnings (loss) per share:					
Basic	\$4.73	\$6.05	\$6.61	\$7.12	\$6.30
Diluted	\$4.68	\$5.96	\$6.56	\$7.08	\$6.26
Cash dividends declared per share	\$0.64	\$0.57	\$0.52	\$0.48	\$0.44

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	As of December 31,				
	2018	2017	2016	2015	2014
	(dollars in millions, except per share amounts)				
Balance sheet data (end of period):					
Assets:					
Investments and cash	\$10,977	\$11,539	\$11,103	\$11,358	\$11,459
Premiums receivable, net of commissions payable	904	915	576	693	729
Ceded unearned premium reserve	59	119	206	232	381
Salvage and subrogation recoverable	490	572	365	126	151
Total assets	13,603	14,433	14,151	14,544	14,919
Liabilities and shareholders' equity:					
Unearned premium reserve	3,512	3,475	3,511	3,996	4,261
Loss and loss adjustment expense reserve	1,177	1,444	1,127	1,067	799
Long-term debt	1,233	1,292	1,306	1,300	1,297
Credit derivative liabilities	209	271	402	446	963
Total liabilities	7,048	7,594	7,647	8,481	9,161
Accumulated OCI (AOCI)	93	372	149	237	370
Shareholders' equity	6,555	6,839	6,504	6,063	5,758
Book value per share	63.23	58.95	50.82	43.96	36.37
Consolidated statutory financial information:					
Contingency reserve	\$1,663	\$1,750	\$2,008	\$2,263	\$2,330
Policyholders' surplus (1)	5,148	5,305	5,126	4,631	4,222
Claims-paying resources (1) (2)	11,815	12,021	11,954	12,567	12,462
Financial Guaranty Exposure:					
Net debt service outstanding	\$371,586	\$401,118	\$437,535	\$536,341	\$609,622
Net par outstanding	241,802	264,952	296,318	358,571	403,729

- (1) Beginning in the second quarter of 2018, the Company incorporates deferred ceding commission income in claims-paying resources. The claims-paying resources in prior periods have been updated to reflect this change. Based on accounting practices prescribed or permitted by U.S. insurance regulatory authorities, for all insurance subsidiaries. Claims-paying resources is calculated as the sum of statutory policyholders' surplus, statutory
- (2) contingency reserve, unearned premium reserves and net deferred ceding commission income, statutory loss and LAE reserves, present value of installment premium on financial guaranty and credit derivatives, discounted at 6%, standby lines of credit/stop loss and excess-of-loss reinsurance facility. Total claims-paying resources is used by the Company to evaluate the adequacy of capital resources.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and accompanying notes which appear elsewhere in this Form 10-K. It contains forward looking statements that involve risks and uncertainties. See "Forward Looking Statements" for more information. The Company's 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 Form 10-K, particularly under the headings "Risk Factors" and "Forward Looking Statements."

Introduction

The Company provides credit protection products to the U.S. and international public finance (including infrastructure) and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer credit protection products to holders of debt instruments and other monetary obligations that protect them from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled debt service payment, the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. The Company markets its credit protection products directly to issuers and underwriters of public finance and structured finance securities as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the U.K., and also guarantees obligations issued in other countries and regions, including Australia and Western Europe. The Company also provides other forms of insurance that are consistent with its risk profile and benefit from its underwriting experience.

Executive Summary

This executive summary of management's discussion and analysis highlights selected information and may not contain all of the information that is important to readers of this Annual Report. For a more detailed description of events, trends and uncertainties, as well as the capital, liquidity, credit, operational and market risks and the critical accounting policies and estimates affecting the Company, this Annual Report should be read in its entirety.

Economic Environment

The U.S. has experienced sustained positive economic momentum in 2018. According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate began the year at 4.1% and ended the year at 3.9%. Payroll employment growth in 2018 totaled 2.6 million jobs, compared with a gain of 2.2 million jobs in 2017. Gross domestic product (GDP) increased 2.9% in 2018, compared with 2.2% in 2017 according to the Bureau of Economic Analysis initial estimate.

As reported by U.S. Census Bureau and the U.S. Department of Housing and Urban Development, U.S. home prices moderated during 2018 while remaining historically high. The median sale price of new homes sold in the U.S. fell to \$302,400 in November 2018, the lowest level recorded since February 2017 and 11.9% below the peak value of \$343,400 recorded in November 2017. Falling median new home prices and rising median household incomes have contributed to an improvement in the relative affordability of new homes sold in the U.S. See Item 8, Financial Statements and Supplementary Data, Note 5, Expected Loss to be Paid, for a discussion of the market assumptions used in determining expected losses for U.S. RMBS.

At the December 2018 FOMC meeting, the FOMC raised the target range for the federal funds rate to between 2.25% and 2.5%, its fourth rate hike of 2018. The federal funds rate ended 2017 with a target range of 1.25% and 1.50%. On

January 30, 2019, the FOMC made the following statement in regards to future rate hikes in 2019, softening its tone from the December meeting: “In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.” The Company believes this signaled a level of cautiousness in 2019 and a wait-and-see approach as to whether there would be rate hikes in 2019.

Average municipal interest rates in 2018 remained above the historic lows experienced in 2016, during which 30-year AAA MMD rates were at times below 2%. The 30-year AAA MMD rate started the year off at 2.54% and increased to as high as 3.46% in early November 2018. The 30-year AAA MMD rate ended the year at 3.02%. Credit spreads remained largely unchanged throughout 2018 at relatively narrow levels. At year-end, the spread between the MMD “A” general obligation 20-year index and the MMD “AAA” general obligation 20-year index was 50 basis points (bps), having started the year off at 48 bps. During 2018, the spread average was 50.1 bps, more than 5 bps tighter than the 55.7 bps average in 2017.

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When interest rates are low, or when the market is relatively less risk averse, the credit spread between high-quality or insured obligations versus lower-rated or uninsured obligations typically narrows. As a result, financial guaranty insurance typically provides lower interest cost savings to issuers than it would during periods of relatively wider credit spreads. Issuers are less likely to use financial guaranties on their new issues when credit spreads are narrow, which results in decreased demand or premiums obtainable for financial guaranty insurance, and a resulting reduction in the Company's results of operations. See Key Business Strategies, New Business Production section below for market volume and penetration.

Equity markets continued their solid 2017 performance during the first three quarters of 2018, but turned decidedly lower in the fourth quarter. The Company believes that fears that an increasing interest rate environment would hurt the economy in the medium-term, the potential impact of trade negotiations with China, European turmoil (i.e. Brexit; Italy's political, economic, and sovereign fiscal instability), and the partial U.S. government shut down increased market volatility and sent the major U.S. indices lower for the year. The Dow Jones Industrial Average (DJIA), Nasdaq Composite Index and the S&P 500 Index all finished in negative territory for the full year.

During 2018 the U.S. dollar appreciated by around 8% against other currencies on a trade-weighted basis according to data from the Federal Reserve Bank of St. Louis. The Company believes this was the result of the U.S. economy's stronger economic performance vis-à-vis the rest of the world and the differing monetary policy path pursued by the Federal Reserve and other key central banks like the Bank of Japan, the Bank of England and the European Central Bank. See Results of Operations, Consolidated Results of Operations, Other Income (Loss) below for gains/losses on foreign exchange rate changes on the consolidated statements of operations.

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Financial Performance of Assured Guaranty

Financial Results

	Year Ended December 31,			
	2018	2017	2016	
	(in millions, except per share amounts)			
Net income (loss)	\$521	\$ 730	\$ 881	
Non-GAAP operating income (1)	482	661	895	
Gain (loss) related to the effect of consolidating financial guaranty variable interest entities (FG VIE consolidation) included in non-GAAP operating income	(4)	11	12	
Net income (loss) per diluted share	4.68	5.96	6.56	
Non-GAAP operating income per share (1)	4.34	5.41	6.68	
Gain (loss) related to FG VIE consolidation included in non-GAAP operating income per share	(0.03)	0.10	0.10	
Diluted shares	111.3	122.3	134.1	
Gross written premiums (GWP)	612	307	154	
Present value of new business production (PVP) (1)	663	289	214	
Gross par written	24,624	18,024	17,854	
	As of		As of	
	December 31,		December 31,	
	2018		2017	
	Amount	Per	Amount	Per
		Share		Share
	(in millions, except per share amounts)			
Shareholders' equity	\$6,555	\$63.23	\$6,839	\$58.95
Non-GAAP operating shareholders' equity (1)	6,342	61.17	6,521	56.20
Non-GAAP adjusted book value (1)	8,922	86.06	9,020	77.74
Gain (loss) related to FG VIE consolidation included in non-GAAP operating shareholders' equity	3	0.03	5	0.03
Gain (loss) related to FG VIE consolidation included in non-GAAP adjusted book value	(15)	(0.15)	(14)	(0.12)
Common shares outstanding (2)	103.7		116.0	

(1) See “—Non-GAAP Financial Measures” for a definition of the financial measures that were not determined in accordance with accounting principles generally accepted in the United States of America (GAAP) and a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP measure, if available. See “—Non-GAAP Financial Measures” for additional details.

(2) See "Key Business Strategies – Capital Management" below for information on common share repurchases.

Several primary drivers of volatility in net income or loss are not necessarily indicative of credit impairment or improvement, or ultimate economic gains or losses such as: changes in credit spreads of insured credit derivative obligations, changes in fair value of assets and liabilities of FG VIEs and committed capital securities (CCS), changes

in fair value of credit derivatives related to the Company's own credit spreads, and changes in risk-free rates used to discount expected losses. Changes in the Company's and/or collateral credit spreads generally have the most significant effect on the fair value of credit derivatives and FG VIEs' assets and liabilities. Effective January 1, 2018, the change in fair value of FG VIEs' liabilities with recourse attributed to changes in the credit spreads of AGC and AGM, or instrument specific credit risk (ISCR), is recorded in OCI.

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In addition to non-economic factors, other factors such as: changes in expected claims and recoveries, the amount and timing of the refunding and/or termination of insured obligations, realized gains and losses on the investment portfolio (including other-than-temporary impairments (OTTI)), the effects of large settlements, commutations, acquisitions, the effects of the Company's various loss mitigation strategies, and changes in laws and regulations, among others, may also have a significant effect on reported net income or loss in a given reporting period.

Year Ended December 31, 2018

Net income for 2018 was \$521 million compared with \$730 million in 2017. Net income for 2017 was higher primarily due to significant gains attributable to commutations, the MBIA UK Acquisition and representations and warranties (R&W) settlements. Excluding these items in 2017, net income increased mainly due to lower loss and LAE and a lower effective tax rate, offset in part by lower net earned premiums, and net realized investment losses and foreign exchange losses in 2018 compared with foreign exchange gains in 2017.

The Company reported non-GAAP operating income of \$482 million in 2018, compared with \$661 million in 2017. Excluding commutations, the MBIA UK Acquisition and R&W settlements in 2017, non-GAAP operating income increased mainly due to lower loss and LAE and a lower effective tax rate in 2018, offset in part by lower net earned premiums.

Shareholders' equity decreased since December 31, 2017 primarily due to share repurchases, dividends and unrealized losses on available for sale investment securities, partially offset by net income. Non-GAAP operating shareholders' equity decreased in 2018 primarily due to share repurchases and dividends, partially offset by positive non-GAAP operating income. Non-GAAP adjusted book value decreased in 2018 primarily due to share repurchases and dividends, partially offset by the effect of the SGI Transaction and new direct business production.

Shareholders' equity per share, non-GAAP operating shareholders' equity per share and non-GAAP adjusted book value per share all increased in 2018 to \$63.23, \$61.17 and \$86.06, respectively, which benefitted from the repurchase of an additional 13.2 million shares in 2018 under the share repurchase program that began in 2013. See "Accretive Effect of Cumulative Repurchases" table below.

Key Business Strategies

The Company continually evaluates its business strategies. Currently, the Company is pursuing the following business strategies, each described in more detail below:

- New business production
- Capital management
- Alternative strategies
- Loss mitigation

New Business Production

The Company believes high-profile defaults by municipal obligors, such as Puerto Rico, Detroit, Michigan and Stockton, California have led to increased awareness of the value of bond insurance and stimulated demand for the product. The Company believes there will be continued demand for its insurance in this market because, for those exposures that the Company guarantees, it undertakes the tasks of credit selection, analysis, negotiation of terms, surveillance and, if necessary, loss mitigation. The Company believes that its insurance:

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encourages retail investors, who typically have fewer resources than the Company for analyzing municipal bonds, to purchase such bonds;
enables institutional investors to operate more efficiently; and
allows smaller, less well-known issuers to gain market access on a more cost-effective basis.

On the other hand, the persistently low interest rate environment and relatively tight U.S. municipal credit spreads have dampened demand for bond insurance, and provisions in legislation known as the Tax Act, such as the termination of the tax-exempt status of advance refunding bonds and the reduction in corporate tax rates, have resulted in a reduction of supply and made municipal obligations less attractive to certain institutional investors.

Table of ContentsU.S. Municipal Market Data and Bond Insurance Penetration Rates (1)
Based on Sale Date

	Year Ended December 31,			
	2018	2017	2016	
	(dollars in billions, except number of issues and percent)			
Par:				
New municipal bonds issued	\$ 320.3	\$ 409.5	\$ 423.7	
Total insured	\$ 18.9	\$ 23.0	\$ 25.3	
Insured by Assured Guaranty	\$ 10.5	\$ 13.5	\$ 14.2	
Number of issues:				
New municipal bonds issued	8,555	10,589	12,271	
Total insured	1,246	1,637	1,889	
Insured by Assured Guaranty	596	833	904	
Bond insurance market penetration based on:				
Par	5.9	% 5.6	% 6.0	%
Number of issues	14.6	% 15.5	% 15.4	%
Single A par sold	17.8	% 23.3	% 22.6	%
Single A transactions sold	52.8	% 57.3	% 55.8	%
\$25 million and under par sold	17.2	% 18.7	% 17.8	%
\$25 million and under transactions sold	17.1	% 18.3	% 17.5	%

Source: The amounts in the table are those reported by Thomson Reuters. In addition, the Company considers \$500 (1) million of taxable ProMedica Toledo Hospital bonds insured by Assured Guaranty in 2018 to be public finance business.

Table of ContentsGross Written Premiums and
New Business Production

	Year Ended December 31,			
	2018	2017	2016	
	(in millions)			
GWP				
Public Finance—U.S.	\$ 320	\$ 190	\$ 142	
Public Finance—non-U.S.	115	105	15	
Structured Finance—U.S.	167	(1) (1)
Structured Finance—non-U.S.	10	13	(2)
Total GWP	\$612	\$307	\$154	
PVP (1):				
Public Finance—U.S.	\$391	\$196	\$161	
Public Finance—non-U.S.	94	66	25	
Structured Finance—U.S. (2)	166	12	27	
Structured Finance—non-U.S. (3)	12	15	1	
Total PVP	\$663	\$289	\$214	
Gross Par Written (1):				
Public Finance—U.S.	\$19,572	\$15,957	\$16,039	
Public Finance—non-U.S.	3,817	1,376	677	
Structured Finance—U.S. (2)	902	489	1,114	
Structured Finance—non-U.S. (3)	333	202	24	
Total gross par written	\$24,624	\$18,024	\$17,854	
Average rating on new business written	A-	A-	A-	

(1) PVP and Gross Par Written in the table above are based on "close date," when the transaction settles. See "– Non-GAAP Financial Measures – PVP or Present Value of New Business Production."

(2) Includes life insurance capital relief transactions in certain years.

(3) Included aircraft RVI policies in certain years.

GWP relates to both financial guaranty insurance and non-financial guaranty insurance contracts. Credit derivatives are accounted for at fair value and therefore not included in GWP. Financial guaranty GWP includes amounts collected upfront on new business written, the present value of future premiums on new business written (discounted at risk free rates), as well as the effects of changes in the estimated lives of transactions in the inforce book of business. Non-financial guaranty GWP is recorded as premiums are received. Non-GAAP PVP, on the other hand, includes upfront premiums and future installments on new business that are estimated at the time of issuance, discounted at 6% for all contracts whether in insurance or credit derivative form.

GWP and PVP for 2018 reached 10-year records due to the assumption of substantially all of the insured portfolio of SGI. On a GAAP basis, the SGI Transaction generated GWP of \$330 million, plus \$86 million in undiscounted expected future credit derivative revenue, including transactions with \$131 million in expected losses (discounted at a risk-free rate on a GAAP basis). On a non-GAAP basis, PVP was \$391 million, including transactions with expected losses of \$83 million (discounted at 6% consistent with the PVP discount rate). See also Item 8, Financial Statements and Supplementary Data, Note 2, Assumption of Insured Portfolio and Business Combinations, for additional

information. The components of new business production generated by the SGI Transaction are presented below.

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Assumed SGI Insured Portfolio

As of June 1, 2018

	GWP PVP (1)			Total	Gross Par Written (1)
	Financial Guaranty	Financial Guaranty	Credit Derivatives		
	(in millions)				
Public Finance—U.S.	\$ 123	\$ 118	\$ 67	\$ 185	\$ 7,559
Public Finance—non-U.S.	50	38	12	50	3,345
Structured Finance—U.S.	157	156	—	156	349
Structured Finance—non-U.S.	—	—	—	—	19
Total	\$ 330	\$ 312	\$ 79	\$ 391	\$ 11,272

(1) See “– Non-GAAP Financial Measures – PVP or Present Value of New Business Production.”

Excluding the assumed business from SGI, U.S. public finance PVP was 5% higher compared with 2017, despite a 22% decline in new U.S. municipal bonds issued. In 2018, Assured Guaranty once again guaranteed the majority of U.S. public finance insured par issued. Outside the U.S., the Company generated \$44 million of public finance PVP in 2018 compared with \$66 million in 2017. In 2018 this included several infrastructure finance and regulated utilities transactions, including the Company's first post-financial crisis transaction in Australia.

In non-U.S. structured finance, the Company closed insurance and reinsurance aircraft residual value insurance policies, which represented all of the new business in 2017 and the majority of new business in 2018. In 2018, the Company also closed transactions in the commercial real estate market, and guaranteed a collateralized loan obligation for the first time since 2008. Structured finance transactions tend to have long lead times and may vary from period to period.

The Company believes its financial guaranty product is competitive with other financing options in certain segments of the global infrastructure market. Future business activity in the global infrastructure market will be influenced by the typically long lead times for these types of transactions and may vary from period to period. The Company also believes that its financial guaranty product is competitive with other financing options in certain segments of the structured finance market. For example, certain investors may receive advantageous capital requirement treatment with the addition of the Company's guaranty. The Company considers its involvement in both international infrastructure and structured finance transactions to be beneficial because such transactions diversify both the Company's business opportunities and its risk profile beyond U.S. public finance.

Capital Management

In recent years, the Company has developed strategies to manage capital within the Assured Guaranty group more efficiently.

From 2013 through March 1, 2019, the Company has repurchased 95.7 million common shares for approximately \$2,764 million, representing 49% of the total shares outstanding at the beginning of the repurchase program in 2013. On February 27, 2019, the Board of Directors (the Board) authorized an additional \$300 million of share repurchases. As of March 1, 2019, \$350 million remained under the aggregate share repurchase authorization. Shares may be repurchased from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program are at the discretion of management and will depend on a variety of factors, including free funds available at the parent company, other potential uses for such free funds, market

conditions, the Company's capital position, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time and does not have an expiration date. See Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity, for additional information about the Company's repurchases of its common shares.

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Summary of Share Repurchases

	Amount of	Number	Average
	Shares	of	price
		Shares	per
			share
	(in millions, except per share data)		
2013	\$264	12.5	\$ 21.12
2014	590	24.4	24.17
2015	555	21.0	26.43
2016	306	10.7	28.53
2017	501	12.7	39.57
2018	500	13.2	37.76
2019 (through March 1, 2019)	48	1.2	40.03
Cumulative repurchases since the beginning of 2013	\$2,764	95.7	\$ 28.87

Accretive Effect of Cumulative Repurchases(1)

	Year Ended			
	December			
	31,		As of	As of
	2018	2017	December 31,	December 31,
			2018	2017
	(per share)			
Net income	\$1.73	\$2.03		
Non-GAAP operating income	1.58	1.81		
Shareholders' equity			\$ 16.26	\$ 12.92
Non-GAAP operating shareholders' equity			15.29	11.80
Non-GAAP adjusted book value			27.07	20.58

(1) Cumulative repurchases since the beginning of 2013.

In 2017, the respective regulators of AGC, AGM and MAC approved those companies' repurchases of shares of common stock from their respective direct parent companies. AGC implemented a \$200 million share repurchase in January 2018, AGM implemented a \$101 million share repurchase in December 2017 and MAC implemented a \$250 million share repurchase in September 2017. AGL has used these funds predominantly to repurchase its publicly traded common shares.

In December 2016, AGM repurchased \$300 million of its common stock from AGMH, the majority of which was ultimately distributed to AGL. AGL has used these funds predominantly to repurchase its publicly traded common shares. In June 2016, MAC repaid its \$300 million surplus note to Municipal Assurance Holdings Inc. (MAC Holdings) and its \$100 million surplus note (plus accrued interest) to AGM with a mixture of cash and/ or marketable securities. MAC Holdings, in turn, distributed \$182 million to AGM and \$118 million to AGC. See Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements, for information about dividend capacity of the Company's insurance companies.

The Company also considers the appropriate mix of debt and equity in its capital structure, and may repurchase some of its debt from time to time. For example, in 2018 and 2017, AGUS purchased \$100 million and \$28 million of par, respectively, of AGMH's outstanding Junior Subordinated Debentures, which resulted in a loss on extinguishment of debt of \$34 million in 2018 and \$9 million in 2017. The Company may choose to make additional purchases of this or other Company debt in the future.

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Alternative Strategies

The Company considers alternative strategies to create long-term shareholder value, including acquisitions, investments and commutations. For example, the Company considers opportunities to acquire financial guaranty portfolios, whether by acquiring financial guarantors who are no longer actively writing new business or their insured portfolios, or by commuting previously ceded business. See New Business Production above, and Item 8, Financial Statements and Supplementary Data, Note 2, Assumption of Insured Portfolio and Business Combinations, and Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance, for additional information. These transactions enable the Company to improve its future earnings and deploy excess capital.

Assumption of Insured Portfolio. On June 1, 2018, the Company closed the SGI Transaction under which AGC assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio and AGM reassumed a book of business previously ceded to SGI by AGM. The net par value of exposures reinsured and commuted as of June 1, 2018 totaled approximately \$12 billion. The SGI Transaction reduced shareholders' equity by \$0.16 per share, due to a loss on the reassumed book of business, and increased non-GAAP adjusted book value by \$2.25 per share. Additionally, beginning on June 1, 2018, on behalf of SGI, AGC began providing certain administrative services on the assumed portfolio, including surveillance, risk management, and claims processing.

Acquisitions: On January 10, 2017, AGC completed its acquisition of MBIA UK, which added a total of \$12 billion in net par. At acquisition, MBIA UK contributed shareholders' equity of \$84 million and non-GAAP adjusted book value of \$322 million. On July 1, 2016, AGC acquired all of the issued and outstanding capital stock of CIFGH, for \$450.6 million in cash that contributed \$2.23 per share to shareholders' equity, \$2.23 per share to non-GAAP operating shareholders' equity and \$3.85 per share to non-GAAP adjusted book value at the date of acquisition.

Commutations. The Company entered into various commutation agreements to reassume previously ceded business in 2018, 2017 and 2016 that resulted in losses of \$16 million in 2018, gains of \$328 million in 2017 and gains of \$8 million in 2016. The commutations added net unearned premium reserve of \$64 million in 2018 and \$82 million in 2017. In the future, the Company may enter into new commutation agreements to reassume portions of its insured business ceded to other reinsurers, but such opportunities are expected to be limited given the small number of unaffiliated reinsurers currently reinsuring the Company.

Alternative Investments. The alternative investments group has been investigating a number of new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies, including, among others, both controlling and non-controlling investments in investment managers.

In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. In September 2017, the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an independent investment advisory firm specializing in SMAs. In February 2017 the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers of which \$83 million remains to be invested as of December 31, 2018.

The Company continues to investigate additional opportunities, but there can be no assurance of whether or when the Company will find suitable opportunities on appropriate terms.

Loss Mitigation

In an effort to avoid or reduce potential losses in its insurance portfolios, the Company employs a number of strategies.

In the public finance area, the Company believes its experience and the resources it is prepared to deploy, as well as its ability to provide bond insurance or other contributions as part of a solution, result in more favorable outcomes in distressed public finance situations than would be the case without its participation. This has been illustrated by the Company's role in the Detroit, Michigan; Stockton, California; and Jefferson County, Alabama financial crises. Currently, the Company is actively working to mitigate potential losses in connection with the obligations it insures of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations and was an active participant in negotiating the Puerto Rico Sales Tax Financing Corporation (COFINA) Plan of Adjustment. The Company will also, where appropriate, pursue litigation to enforce its rights, and it has initiated a number of legal actions to enforce its rights in Puerto Rico. For more information about developments in Puerto Rico and related recovery litigation being pursued by the Company, see Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

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The Company is currently working with the servicers of some of the RMBS it insures to encourage the servicers to provide alternatives to distressed borrowers that will encourage them to continue making payments on their loans to help improve the performance of the related RMBS.

In some instances, the terms of the Company's policy gives it the option to pay principal on an accelerated basis on an obligation on which it has paid a claim, thereby reducing the amount of guaranteed interest due in the future. The Company has at times exercised this option, which uses cash but reduces projected future losses. The Company may also facilitate the issuance of refunding bonds, by either providing insurance on the refunding bonds or purchasing refunding bonds, or both. Refunding bonds may provide the issuer with payment relief.

Other Events

Brexit

On June 23, 2016, a referendum was held in the U.K. in which a majority voted to exit the EU, known as “Brexit”. The U.K. government served notice to the European Council on March 29, 2017 of its desire to withdraw in accordance with Article 50 of the Treaty on European Union. As described above in Part 1, Item 1, Business, Regulation, there has been no approval by the U.K. parliament of any withdrawal agreement between the EU and the U.K. Failing such approval or the implementation of an agreed extension to the U.K.'s planned departure date, the U.K. is currently expected to leave the EU on March 29, 2019 under a No-Deal Brexit, leaving considerable uncertainty as to the ongoing terms of the U.K.'s relationship with the EU, including the terms of trade between the U.K. and the EU, and a likely negative impact on all parties. Given the lack of clarity on the ultimate post-Brexit relationship between the U.K. and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its business or operations, both inside and outside the U.K., but it has identified the following issues:

Currency Impact. The Company reports its accounts in U.S. dollars, while some of its income, expenses, assets and liabilities are denominated in other currencies, primarily the pound sterling and the euro. During 2016, the year in which a majority in the U.K. voted for Brexit, the value of pound sterling dropped from £0.68 per dollar to £0.81 per dollar, while the euro dropped from €0.83 per dollar to €0.95 per dollar. For the year ended 2016 the Company recognized losses of approximately \$21 million in the consolidated statement of operations, net of tax, and approximately \$32 million in OCI, net of tax, for foreign currency translation, that were primarily driven by the exchange rate fluctuations of the pound sterling. Currency exchange rates may also move materially as the terms of Brexit become known, especially in the event of a No-Deal Brexit.

U.K. Business. As of December 31, 2018, approximately \$31.1 billion of the Company's insured net par is to risks located in the U.K., and most of that exposure is to utilities, with much of the rest to hospital facilities, government accommodation, universities, toll roads and housing associations that the Company believes are not overly vulnerable to Brexit pressures. AGE is currently authorized by the PRA of the Bank of England with permissions sufficient to enable AGE to effect and carry out financial guaranty insurance and reinsurance in the U.K. Most of the new transactions insured by AGE since 2008 have been in the U.K.

- **Business Elsewhere in the EU.** As of December 31, 2018, approximately \$7.1 billion of the Company's insured net par is to risks located in EU and EEA countries other than the U.K. Currently, EU directives allow AGE to conduct business in other EU or EEA states based on its PRA permissions. This is sometimes called “passporting”. The Company cannot determine whether U.K. authorized financial services firms such as AGE will continue to enjoy passporting rights to the other EEA states after Brexit. This question will be particularly acute in the event of a No-Deal Brexit because the loss of passporting could occur as early as March 29, 2019, rather than at the end of the transition period under the withdrawal agreement of December 31, 2020. As a

consequence, Assured Guaranty is establishing a new subsidiary in Paris, France, in order to continue with the ability to write new business, and to service existing business, in those other EEA states. That new subsidiary is unlikely to be fully licensed prior to a No-Deal Brexit, should that occur. While the Company believes that, in the event of a No-Deal Brexit or in the absence of applicable transition rules, those other EEA states outside the U.K. will permit the Company to continue to service existing business in their states, there can be no assurance that this will occur, nor can the Company fully determine the impact on its business and operations if it does not occur. As noted above, most of the new transactions insured by AGE since 2008 have been in the U.K.

• Employees. All of the employees working in AGE's London office are either U.K. citizens or have U.K. resident status except one, who has started the application process to become a U.K. resident.

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Results of Operations

Estimates and Assumptions

The Company's consolidated financial statements include amounts that are determined using estimates and assumptions. It is possible that actual amounts realized could differ, possibly materially, from the amounts currently recorded in the Company's consolidated financial statements. Management believes the most significant items requiring inherently subjective and complex estimates are expected losses, fair value estimates, OTTI, deferred income taxes, and premium revenue recognition. The following discussion of the results of operations includes information regarding the estimates and assumptions used for these items and should be read in conjunction with the notes to the Company's consolidated financial statements.

An understanding of the Company's accounting policies is critical to understanding its consolidated financial statements. See Part II, Item 8, Financial Statements and Supplementary Data, for a discussion of significant accounting policies, the loss estimation process, and fair value methodologies.

The Company carries a significant amount of its assets and a portion of its liabilities at fair value, the majority of which are measured at fair value on a recurring basis. Level 3 assets, primarily consisting of loss mitigation securities and FG VIEs' assets, represented approximately 18% and 17% of the total assets that are measured at fair value on a recurring basis as of December 31, 2018 and 2017, respectively. All of the Company's liabilities that are measured at fair value are Level 3. See Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement, for additional information.

Consolidated Results of Operations

Consolidated Results of Operations

	Year Ended		
	December 31,		
	2018	2017	2016
	(in millions)		
Revenues:			
Net earned premiums	\$548	\$690	\$864
Net investment income	398	418	408
Net realized investment gains (losses)	(32)	40	(29)
Net change in fair value of credit derivatives	112	111	98
Fair value gains (losses) on FG VIEs	14	30	38
Bargain purchase gain and settlement of pre-existing relationships	—	58	259
Commutation gains (losses)	(16)	328	8
Other income (loss)	(22)	64	31
Total revenues	1,002	1,739	1,677
Expenses:			
Loss and LAE	64	388	295
Amortization of DAC	16	19	18
Interest expense	94	97	102
Other operating expenses	248	244	245
Total expenses	422	748	660
Income (loss) before provision for income taxes	580	991	1,017
Provision (benefit) for income taxes	59	261	136

Net income (loss)	\$521	\$730	\$881
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Net Earned Premiums

Premiums are earned over the contractual lives, or in the case of homogeneous pools of insured obligations, the remaining expected lives, of financial guaranty insurance contracts. The Company estimates remaining expected lives of its insured obligations and makes prospective adjustments for such changes in expected lives. Scheduled net earned premiums decrease each year unless replaced by a higher amount of new business, reassumptions of previously ceded business, or books of business acquired in a business combination. See Item 8, Financial Statements and Supplementary Data, Note 6, Contracts Accounted for as Insurance, Financial Guaranty Insurance Premiums, for additional information.

Net Earned Premiums

	Year Ended December 31, 2018 2017 2016 (in millions)		
Financial guaranty insurance:			
Public finance			
Scheduled net earned premiums and accretion	\$300	\$315	\$299
Accelerations:			
Refundings	139	269	390
Terminations	14	2	34
Total accelerations	153	271	424
Total public finance	453	586	723
Structured finance(1)			
Scheduled net earned premiums and accretion	85	87	96
Accelerations	6	15	45
Total structured finance	91	102	141
Non-financial guaranty	4	2	—
Total net earned premiums	\$548	\$690	\$864

(1) Excludes \$12 million, \$15 million and \$16 million for 2018, 2017 and 2016, respectively, related to consolidated FG VIEs.

2018 compared with 2017: Net earned premiums decreased in 2018 compared with 2017 primarily due to reduced refunding activity due to a reduction in the insured portfolio as well as fewer advanced refunding bonds, caused by changes in tax law enacted in 2017. At December 31, 2018, \$3.5 billion of net deferred premium revenue remained to be earned over the life of the insurance contracts. The SGI Transaction contributed \$375 million of net unearned premium reserve on June 1, 2018.

2017 compared with 2016: Net earned premiums decreased in 2017 compared with 2016 due to lower refundings and terminations. The MBIA UK Acquisition increased deferred premium revenue by \$383 million at the date of the acquisition.

Net earned premiums due to accelerations is attributable to changes in the expected lives of insured obligations driven by (a) refundings of insured obligations or (b) terminations of insured obligations either through negotiated agreements or the exercise of the Company's contractual rights to make claim payments on an accelerated basis.

Refundings occur in the public finance market and had been at historically high levels in recent years primarily due to the low interest rate environment, which has allowed many municipalities and other public finance issuers to refinance their debt obligations at lower rates. The premiums associated with the insured obligations of municipalities and other public finance issuers are generally received upfront when the obligations are issued and insured. When such issuers pay down insured obligations prior to their originally scheduled maturities, the Company is no longer on risk for payment defaults, and therefore accelerates the recognition of the nonrefundable deferred premium revenue remaining. Provisions in the 2017 Tax Act regarding the termination of the tax-exempt status of advance refunding bonds has resulted in fewer refundings in 2018 than in comparable periods in prior years.

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Terminations are generally negotiated agreements with beneficiaries resulting in the extinguishment of the Company's insurance obligation. Terminations are more common in the structured finance asset class, but may also occur in the public finance asset class. While each termination may have different terms, they all result in the expiration of the Company's insurance risk, the acceleration of the recognition of the associated deferred premium revenue and the reduction of remaining premiums receivable.

Net Investment Income

Net investment income is a function of the yield earned and the size of the investment portfolio. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the invested assets.

Net Investment Income (1)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Income from fixed-maturity securities managed by third parties	\$297	\$298	\$306
Income from internally managed securities (1)	110	129	111
Gross investment income	407	427	417
Investment expenses	(9)	(9)	(9)
Net investment income	\$398	\$418	\$408

(1) Net investment income excludes \$4 million for 2018, \$5 million for 2017 and \$10 million in 2016, related to securities in the investment portfolio that were issued by consolidated FG VIEs.

2018 compared with 2017: Net investment income decreased compared with 2017 primarily due to the accretion on the Zohar II 2005-1 notes prior to the MBIA UK Acquisition date in January 2017. The overall pre-tax book yield was 3.79% as of December 31, 2018 and 3.68% as of December 31, 2017, respectively. Excluding the internally managed portfolio, pre-tax book yield was 3.23% as of December 31, 2018 compared with 3.14% as of December 31, 2017.

2017 compared with 2016: Net investment income increased compared with 2016 primarily due to improved underlying cash flows of internally managed securities due to a litigation settlement related to certain loss mitigation bonds. The overall pre-tax book yield was 3.68% as of December 31, 2017 and 3.80% as of December 31, 2016, respectively. Excluding the internally managed portfolio, pre-tax book yield was 3.14% as of December 31, 2017 compared with 3.30% as of December 31, 2016.

Net Realized Investment Gains (Losses)

The table below presents the components of net realized investment gains (losses).

Net Realized Investment Gains (Losses)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Gross realized gains on available-for-sale securities	\$20	\$95	\$28

Gross realized losses on available-for-sale securities	(12)	(12)	(8)
Net realized gains (losses) on other invested assets	(1)	—	2
OTTI	(39)	(43)	(51)
Net realized investment gains (losses)	\$(32)	\$40	\$(29)

Gross realized gains in 2018 mainly related to foreign exchange gains. Gross realized gains in 2017 mainly relate to sales of internally managed investments, including the gain on sale of the Zohar II 2005-1 notes exchanged in the MBIA UK

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Acquisition. Gross realized gains in 2016 were primarily due to sales of securities in order to fund the purchase of CIFGH by AGC. OTTI for all periods presented was mainly attributable to securities purchased for loss mitigation purposes.

Net Change in Fair Value of Credit Derivatives

Changes in the fair value of credit derivatives occur because of changes in the issuing company's own credit rating and credit spreads, collateral credit spreads, notional amounts, credit ratings of the referenced entities, expected terms, realized gains (losses) and other settlements, interest rates, and other market factors. With volatility continuing in the market, unrealized gains (losses) on credit derivatives may fluctuate significantly in future periods.

Except for net estimated credit impairments (i.e., net expected payments), the unrealized gains and losses on credit derivatives are expected to reduce to zero as the exposure approaches its maturity date. Changes in the fair value of the Company's credit derivatives that do not reflect actual or expected claims or credit losses have no impact on the Company's statutory claims-paying resources, rating agency capital or regulatory capital positions. Changes in expected losses in respect of contracts accounted for as credit derivatives are included in the discussion of "Economic Loss Development" below.

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 structural 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 and AGM. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date. Generally, a widening of credit spreads of the underlying obligations results in unrealized losses and the tightening of credit spreads of the underlying obligations results in unrealized gains. A widening of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized losses that result from widening general market credit spreads, while a narrowing of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized gains that result from narrowing general market credit spreads.

The valuation of the Company's credit derivative contracts requires the use of models that contain significant, unobservable inputs, and are classified as Level 3 in the fair value hierarchy. The models used to determine fair value are primarily developed internally based on market conventions for similar transactions that the Company observed in the past. There has been very limited new issuance activity in this market over the past several years and as of December 31, 2018, market prices for the Company's credit derivative contracts were generally not available. Inputs to the estimate of fair value include various market indices, credit spreads, the Company's own credit spread, and estimated contractual payments. See Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement, for additional information.

Net Change in Fair Value of Credit Derivative Gain (Loss)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Realized gains on credit derivatives	\$9	\$17	\$56
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(25)	(27)	(27)
Realized gains (losses) and other settlements (1)	(16)	(10)	29
Net unrealized gains (losses)	128	121	69
Net change in fair value of credit derivatives	\$112	\$111	\$98

(1) Includes realized gains and losses due to terminations and settlements of CDS contracts.

Net credit derivative premiums included in the realized gains on credit derivatives line in the table above have declined in 2018, 2017 and 2016 primarily due to the decline in the net par outstanding. In recent years, the Company has negotiated terminations of investment grade and BIG CDS contracts with its counterparties. The following table presents the effects of terminations.

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of Direct Credit Derivative Contracts

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Net par of terminated credit derivative contracts	\$601	\$331	\$3,811
Realized gains (losses) and other settlements	1	(15)	20
Net unrealized gains (losses) on credit derivatives	5	26	103

During 2018, unrealized fair value gains were primarily generated by CDS terminations, run-off of CDS par and price improvements on the underlying collateral of the Company's CDS. In addition, unrealized fair value gains were generated by the increase in credit given to the primary insurer on one of the Company's second-to-pay CDS policies during the period. The unrealized fair value gains were partially offset by unrealized fair value losses resulting from wider implied net spreads driven by the decreased cost to buy protection in AGC's and AGM's name, as the market cost of AGC's and AGM's credit protection decreased during the period. For those CDS transactions that were pricing at or above their floor levels, when the cost of purchasing CDS protection on AGC and AGM, which management refers to as the CDS spread on AGC and AGM, decreased the implied spreads that the Company would expect to receive on these transactions increased.

During 2017 and 2016, unrealized fair value gains were primarily generated by CDS terminations, run-off of net par outstanding, and price improvements on the underlying collateral of the Company's CDS. The majority of the CDS transactions that were terminated were as a result of settlement agreements with several CDS counterparties. In 2016, the unrealized fair value gains were partially offset by unrealized losses resulting from wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, as the market cost of AGC's and AGM's credit protection decreased significantly during the period. During 2017, the cost to buy protection in AGC's and AGM's name, specifically the five-year CDS spread, did not change materially during the period, and therefore did not have a material impact on the Company's unrealized fair value gains and losses on CDS.

Effect of Changes in the Company's Credit Spread on
Net Unrealized Gains (Losses) on Credit Derivatives

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Change in unrealized gains (losses) on credit derivatives:			
Before considering implication of the Company's credit spreads	\$126	\$118	\$183
Resulting from change in the Company's credit spreads	2	3	(114)
After considering implication of the Company's credit spreads	\$128	\$121	\$69

Management believes that the trading level of AGC's and AGM's credit spreads over the past several years has been due to the correlation between AGC's and AGM's risk profile and the current risk profile of the broader financial markets.

Financial Guaranty Variable Interest Entities

As of December 31, 2018 and 2017, the Company consolidated 31 and 32 FG VIEs, respectively. The table below presents the effects on reported GAAP income resulting from consolidating these FG VIEs and eliminating intercompany transactions. The consolidation of FG VIEs has the following effect on net income and shareholders' equity.

Changes in fair value gains (losses) on FG VIEs' assets and liabilities are recorded in the Statement of Operations (effective January 1, 2018 the change in fair value of FG VIEs' liabilities with recourse attributable to ISCR is recorded in OCI, instead of net income - See Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation, for additional information). Upon adoption, the Company reclassified a loss of approximately \$33 million, net of tax, from retained earnings to AOCI.

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Upon consolidation of a FG VIE, premiums and losses related to AGC's and AGM's insurance of FG VIEs' liabilities with recourse and, any investment balances related to the Company's purchase of AGC and AGM insured FG VIEs' debt, are considered intercompany transactions and are therefore eliminated.

See Item 8, Financial Statements and Supplementary Data, Note 9, Variable Interest Entities, for additional information.

Effect of Consolidating FG VIEs on Net Income (Loss)

	Year Ended December 31, 2018 2017 2016 (in millions)		
Fair value gains (losses) on FG VIEs	\$14	\$30	\$38
Elimination of insurance and investment balances	(19)	(13)	(18)
Effect on income before tax	(5)	17	20
Less: tax provision (benefit)	(1)	6	7
Effect on net income (loss)	\$(4)	\$11	\$13

For all periods presented, the primary driver of the gain in fair value of FG VIEs' assets and FG VIEs' liabilities was an increase in the value of FG VIEs' assets resulting from improvement in the underlying collateral.

Bargain Purchase Gain and Settlement of Pre-existing Relationships

In connection with the MBIA UK Acquisition in 2017 and the CIFG Acquisition in 2016, the Company recognized bargain purchase gains and gains (losses) on settlements of pre-existing relationships.

Bargain Purchase Gain and Settlement of Pre-existing Relationships

	Year Ended December 31, 20172016 (in millions)	
Bargain purchase gain	\$56	\$357
Settlement of pre-existing relationships	2	(98)
Total	\$58	\$259

See Item 8, Financial Statements and Supplementary Data, Note 2, Assumption of Insured Portfolio and Business Combinations, for additional information.

Commutation Gains (Losses)

In connection with the reassumption of previously ceded books of business, the Company recognized commutation losses of \$16 million in 2018 and commutation gains of \$328 million and \$8 million in 2017 and 2016, respectively. The losses in 2018 related to the commutation component of the SGI Transaction. See Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance, for additional information.

Other Income (Loss)

Other income (loss) consists of recurring items such as those listed in the table below as well as ancillary fees on financial guaranty policies for commitments and consents, and if applicable, other revenue items on financial guaranty insurance and reinsurance contracts such as loss mitigation recoveries and other non-recurring items.

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Other Income (Loss)

	Year Ended		
	December 31,		
	2018	2017	2016
	(in millions)		
Foreign exchange gain (loss) on remeasurement (1)	\$(37)	\$60	\$(37)
Fair value gains (losses) on equity investments (2)	27	—	—
Loss on extinguishment of debt (3)	(34)	(9)	—
Fair value gains (losses) on CCS	14	(2)	—
Other	8	15	68
Total other income (loss)	\$(22)	\$64	\$31

(1) Foreign exchange gains primarily relate to remeasurement of premiums receivable and are mainly due to changes in the exchange rate of the British pound sterling relative to the U.S. dollar.

(2) The Company recorded a gain on change in fair value of equity securities in 2018 related to the Company's minority interest in the parent company of TMC Bonds LLC, which it sold in third quarter of 2018.

(3) The loss on extinguishment of debt is related to AGUS' purchase of a portion of the principal amount of AGMH's outstanding Junior Subordinated Debentures. The loss represents the difference between the amount paid to purchase AGMH's debt and the carrying value of the debt, which includes the unamortized fair value adjustments that were recorded upon the acquisition of AGMH in 2009. AGUS purchased \$100 million of principal amount in 2018 and \$28 million in 2017. See Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities, for additional information.

Economic Loss Development

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company's control rights. For a discussion of assumptions and methodologies used in calculating the expected loss to be paid for all contracts, the loss estimation process and approach to projecting losses, and the measurement and recognition accounting policies under GAAP for each type of contract, see the Notes listed below in Item 8, Financial Statements and Supplementary Data.

- Note 5 for expected loss to be paid
- Note 6 for contracts accounted for as insurance
- Note 7 for fair value methodologies for credit derivatives and FG VIEs' assets and liabilities
- Note 8 for contracts accounted for as credit derivatives
- Note 9 for FG VIEs

In order to efficiently evaluate and manage the economics of the entire insured portfolio, management complies and analyzes expected loss information for all policies on a consistent basis. The discussion of losses that follows encompasses losses on all contracts in the insured portfolio regardless of accounting model, unless otherwise specified. Net expected loss to be paid primarily consists of the present value of future: expected claim and LAE payments, expected recoveries from issuers or excess spread and other collateral in the transaction structures, cessions to reinsurers, and expected recoveries/payables for breaches of R&W and the effects of other loss mitigation strategies. Current risk free rates are used to discount expected losses at the end of each reporting period and therefore changes in such rates from period to period affect the expected loss estimates reported. Assumptions used in the

determination of the net expected loss to be paid such as delinquency, severity, and discount rates and expected time frames to recovery were consistent by sector regardless of the accounting model used. The primary drivers of economic loss development are discussed below. Changes in risk free rates used to discount losses affect economic loss development, and loss and LAE; however, the effect of changes in discount rates are not indicative of actual credit impairment or improvement in the period.

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Net Expected Loss to be Paid (Recovered) and
 Net Economic Loss Development (Benefit)
 By Accounting Model

	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit) (1)		
	As of December 31, 2018 2017		Year Ended December 31, 2018 2017 2016		
	(in millions)				
Financial guaranty insurance	\$1,109	\$1,226	\$(9)	\$353	\$164
FG VIEs and other	76	91	(13)	(6)	(8)
Credit derivatives	(2)	(14)	17	(34)	(17)
Total	\$1,183	\$1,303	\$(5)	\$313	\$139

Net Expected Loss to be Paid (Recovered) and
 Net Economic Loss Development (Benefit)
 By Sector

	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit) (1)		
	As of December 31, 2018 2017		Year Ended December 31, 2018 2017 2016		
	(in millions)				
Public finance	\$864	\$1,203	\$56	\$549	\$269
Structured finance					
U.S. RMBS	293	73	(69)	(181)	(91)
Other structured finance	26	27	8	(55)	(39)
Structured finance	319	100	(61)	(236)	(130)
Total	\$1,183	\$1,303	\$(5)	\$313	\$139

(1) Economic loss development includes the effects of changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

Risk-Free Rates

Risk-Free Rates used in Effect of
 Expected Loss for U.S. Changes in
 Dollar Denominated the Risk-Free
 Obligations Rates on
 Economic
 Loss
 Development

	(Benefit)
As of December 31,	Year Ended December 31,
Range	Weighted Average (in millions)
20180.0%-3.06%	2.74 % \$ (17)
20170.0%-2.78%	2.38 % 25
20160.0%-3.23%	2.73 % (15)

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2018 Net Economic Loss Development

Public Finance Economic Loss Development: Public finance expected loss to be paid primarily related to U.S. exposure, which had BIG net par outstanding of \$6.4 billion as of December 31, 2018 compared with \$7.1 billion as of December 31, 2017. The Company projects that its total net expected loss across its troubled U.S. public finance exposures as of December 31, 2018 will be \$832 million, compared with \$1,157 million as of December 31, 2017. The total net expected loss for troubled U.S. public finance exposures is net of a credit for estimated future recoveries of claims already paid. At December 31, 2018 that credit was \$586 million compared with \$385 million at December 31, 2017. Economic loss development on U.S. exposures in 2018 was \$70 million, which was primarily attributable to Puerto Rico exposures, partially offset by the release of reserves on the Company's exposure to the City of Hartford following the State of Connecticut's (CT) agreement to pay the debt service costs of certain bonds of the City of Hartford, including those insured by the Company.

The economic benefit of approximately \$14 million on non-U.S. exposures during 2018 was mainly attributable to the U.K. arterial road and changes in certain probability of default assumptions. See Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, for details about significant developments that have taken place in Puerto Rico.

U.S. RMBS Economic Loss Development: The net benefit attributable to U.S. RMBS of \$69 million was mainly related to improvement in the performance of second lien U.S. RMBS transactions. The net expected loss to be paid for U.S. RMBS increased from 2017 to 2018 mainly due to the SGI Transaction and collection of a large R&W settlement in 2018.

Other Structured Finance Economic Loss Development: The economic loss development attributable to structured finance, excluding U.S. RMBS, was \$8 million, related to progress on efforts to workout triple-X life insurance transactions and LAE.

2017 Net Economic Loss Development

Public Finance Economic Loss Development: Public finance expected loss to be paid primarily related to U.S. exposures which had BIG net par outstanding of \$7.1 billion as of December 31, 2017 compared with \$7.4 billion as of December 31, 2016. The Company projected that its total net expected loss across its troubled U.S. public finance exposures as of December 31, 2017 would be \$1,157 million, compared with \$871 million as of December 31, 2016. Economic loss development on U.S. exposures in 2017 was \$554 million, which was primarily attributable to Puerto Rico exposures.

U.S. RMBS Economic Loss Development: The net benefit attributable to U.S. RMBS was \$181 million and was mainly related to an R&W litigation settlement, and improved second lien U.S. RMBS recoveries.

Other Structured Finance Economic Loss Development: The net benefit attributable to structured finance (excluding U.S. RMBS) was \$55 million, primarily due to a benefit from a litigation settlement related to two triple-X transactions.

2016 Net Economic Loss Development

Public Finance Economic Loss Development: Expected loss to be paid for public finance primarily related the Company's to U.S. exposures. The net par outstanding for U.S. public finance obligations rated BIG by the Company was \$7.4 billion as of December 31, 2016 compared with \$7.8 billion as of December 31, 2015. The Company projected that its total net expected loss across its troubled U.S. public finance exposures as of December 31, 2016 would be \$871 million, compared with \$771 million as of December 31, 2015. Economic loss development on U.S.

exposures in 2016 was \$276 million, which was primarily attributable to Puerto Rico exposures.

U.S. RMBS Economic Loss Development: The net benefit attributable to U.S. RMBS was \$91 million and was mainly due to the acceleration of claim payments as a means of mitigating future losses on certain Alt-A transactions.

Other Structured Finance Economic Loss Development: The net benefit attributable to structured finance, excluding U.S. RMBS, was \$39 million, primarily due to a benefit from the purchase of a portion of an insured obligation as part of a loss mitigation strategy and the commutation of certain assumed student loan exposures.

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Loss and LAE (Financial Guaranty Insurance Contracts)

The primary differences between net economic loss development and the amount reported as loss and LAE in the consolidated statements of operations are that loss and LAE: (1) considers deferred premium revenue in the calculation of loss reserves and loss and LAE for financial guaranty insurance contracts, (2) eliminates loss and LAE related to consolidated FG VIEs and (3) does not include estimated losses on credit derivatives.

Loss and LAE reported in non-GAAP operating income (i.e., operating loss and LAE) includes losses on financial guaranty insurance contracts (other than those eliminated due to consolidation of FG VIEs), and credit derivatives.

For financial guaranty insurance contracts each transaction's expected loss to be expensed is compared with the deferred premium revenue of that transaction. When the expected loss to be expensed exceeds the deferred premium revenue, a loss is recognized in the consolidated statements of operations for the amount of such excess. Therefore, the timing of loss recognition in income does not necessarily coincide with the timing of the actual credit impairment or improvement reported in net economic loss development. Transactions (particularly BIG transactions) acquired in a business combination or seasoned portfolios assumed from legacy financial guaranty insurers generally have the largest deferred premium revenue balances. Therefore the largest differences between net economic loss development and loss and LAE on financial guaranty insurance contracts generally relate to those policies.

The amount of loss and LAE recognized in the consolidated statements of operations for financial guaranty contracts accounted for as insurance is a function of the amount of economic loss development discussed above and the deferred premium revenue amortization in a given period, on a contract-by-contract basis.

While expected loss to be paid is an important liquidity measure that provides the present value of amounts that the Company expects to pay or recover in future periods on all contracts, expected loss to be expensed is important because it presents the Company's projection of loss and LAE that will be recognized in future periods as deferred premium revenue amortizes into income for financial guaranty insurance policies.

The following table presents the loss and LAE recorded in the consolidated statements of operations. Amounts presented are net of reinsurance.

Loss and LAE Reported
on the Consolidated Statements of Operations

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Public finance	\$83	\$549	\$304
Structured finance			
U.S. RMBS (1)	(15)	(113)	30
Other structured finance	(4)	(48)	(39)
Structured finance	(19)	(161)	(9)
Total loss and LAE (2)	\$64	\$388	\$295

(1) Excludes a benefit of \$3 million, a loss of \$7 million and a loss of \$7 million as of December 31, 2018, December 31, 2017 and December 31, 2016, respectively, related to consolidated FG VIEs.

(2)

Excludes credit derivative loss of \$9 million for 2018, and credit derivative benefit of \$43 million and \$20 million 2017 and 2016, respectively.

Loss and LAE in 2018 was mainly driven by higher loss reserves on certain Puerto Rico exposures, partially offset by the reduction of loss reserves on the City of Hartford, CT exposure and a benefit on structured finance exposures.

Loss and LAE in 2017 was mainly driven by higher loss reserves on certain Puerto Rico exposures, partially offset by a benefit from R&W settlements of \$105 million and a triple-X litigation settlement.

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Loss and LAE in 2016 was mainly driven by higher loss reserves on certain Puerto Rico exposures.

For additional information on the expected timing of net expected losses to be expensed see Item 8, Financial Statements and Supplementary Data, Note 6, Contracts Accounted for as Insurance, Financial Guaranty Insurance Losses.

Interest Expense

The following table presents the components of interest expense. For additional information, see Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities.

Interest Expense

	Year Ended December 31, 2018 2017 2016 (in millions)		
Debt issued by AGUS	\$46	\$44	\$48
Debt issued by AGMH	53	54	54
AGMH's debt purchased by AGUS (1)	(5)	(1)	—
Total	\$94	\$97	\$102

(1) See --Other Income (Loss)-- above for additional information.

In December 2016, \$150 million of debt issued by AGUS became floating rate interest debt, that resets quarterly, at a rate equal to three month LIBOR plus a margin equal to 2.38%. The interest rate on the debt was previously a fixed rate of 6.4%.

Other Operating Expenses and Amortization of Deferred Acquisition Costs

	Year Ended December 31, 2018 2017 2016 (in millions)		
Employee compensation and benefits	\$165	\$153	\$140
Deferred costs	(14)	(10)	(7)
Total employee compensation and benefits net of deferred costs	151	143	133
Professional fees	21	21	21
Premises and equipment	19	19	30
Acquisition related expenses (1)	4	7	8
Other	53	54	53
Other operating expenses	248	244	245
Amortization of DAC	16	19	18
Total other operating expenses and amortization of DAC	\$264	\$263	\$263

(1) Expenses related to SGI Transaction, MBIA UK Acquisition and CIFG Acquisition.

2018 compared with 2017: Other operating expenses increased in 2018 compared with 2017 as higher compensation expenses were partially offset by higher deferred costs as a result of increased new business production.

2017 compared with 2016: Other operating expenses in 2017 decreased slightly compared with 2016 due to lower rent in 2017 that resulted from the move of the Company's New York City offices, offset by higher compensation expenses.

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Provision for 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 unrealized gains and losses on investments and credit derivatives, investment basis difference, loss and LAE reserves, unearned premium reserves and tax attributes for net operating losses and alternative minimum tax credits.

As of December 31, 2018 and December 31, 2017, the Company had a net deferred income tax asset of \$68 million and \$98 million, respectively. The decrease in 2018 from 2017 is mainly attributable to the utilization of alternative minimum tax credits and a decrease in tax reserves for unearned premiums.

Provision for Income Taxes and Effective Tax Rates

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Total provision (benefit) for income taxes	\$59	\$261	\$136
Effective tax rate	10.2%	26.3 %	13.4 %

The Company's effective tax rate reflects the proportion of income recognized by each of the Company's operating subsidiaries, with U.S. subsidiaries generally taxed at the U.S. marginal corporate income tax rate of 21% in 2018 compared with 35% in 2017, U.K. subsidiaries taxed at the U.K. marginal corporate tax rate of 19% unless taxed as a U.S. CFC, and no taxes for the Company's Bermuda Subsidiaries, unless subject to U.S. tax by election or as a U.S. controlled foreign corporation.

The impact of the Tax Act includes the deemed repatriation of all previously untaxed unremitted earnings of CFCs as well as the permanent write down of various tax attributes and other net deferred tax assets related to the reduction of the statutory corporate tax rate from 35% to 21% as of January 1, 2018. As of December 31, 2018, the accounting for the income tax effects of the Tax Act have been completed and the total net impact resulting from the Tax Act is \$57 million, of which \$61 million in provisional expense was recorded in 2017, and a \$4 million tax benefit was recorded in 2018 upon completion of the Company's assessment of the effects of the Tax Act. See Item 8, Financial Statements and Supplementary Data, Note 12, Income Taxes, for more details.

The 2018 effective tax rate reflects the release of \$18 million of previously recorded uncertain tax position reserves and accrued interest, due to the closing of the 2013 and 2014 audit years. In April 2017, the Company received a final letter from the IRS to close the audit for the period of 2009 - 2012, with no additional findings or changes, and as a result the Company released previously recorded uncertain tax position reserves and accrued interest of approximately \$37 million in the third quarter of 2017. Other non-taxable book-to-tax differences were mostly consistent compared with the prior period, with the exception of the benefit on bargain purchase gains from the MBIA UK Acquisition in 2017 and the CIFG Acquisition in 2016.

Non-GAAP Financial Measures

To reflect the key financial measures that management analyzes in evaluating the Company's operations and progress towards long-term goals, the Company discloses both financial measures determined in accordance with GAAP and financial measures not determined in accordance with GAAP (non-GAAP financial measures).

Financial measures identified as non-GAAP should not be considered substitutes for GAAP financial measures. The primary limitation of non-GAAP financial measures is the potential lack of comparability to financial measures of other companies, whose definitions of non-GAAP financial measures may differ from those of the Company.

By disclosing non-GAAP financial measures, the Company gives investors, analysts and financial news reporters access to information that management and the Board of Directors review internally. The Company believes its presentation of non-GAAP financial measures, along with the effect of FG VIE consolidation, provides information that is necessary for analysts to calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and for investors, analysts and the financial news media to evaluate Assured Guaranty's financial results.

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GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company. However, the Company does not own such VIEs and its exposure is limited to its obligation under its financial guaranty insurance contract. Management and the Board of Directors use non-GAAP financial measures adjusted to remove FG VIE consolidation (which the Company refers to as its core financial measures), as well as GAAP financial measures and other factors, to evaluate the Company's results of operations, financial condition and progress towards long-term goals. The Company uses these core financial measures in its decision making process and in its calculation of certain components of management compensation. Wherever possible, the Company has separately disclosed the effect of FG VIE consolidation.

Many investors, analysts and financial news reporters use non-GAAP operating shareholders' equity, adjusted to remove the effect of FG VIE consolidation, as the principal financial measure for valuing AGL's current share price or projected share price and also as the basis of their decision to recommend, buy or sell AGL's common shares. Many of the Company's fixed income investors also use this measure to evaluate the Company's capital adequacy.

Many investors, analysts and financial news reporters also use non-GAAP adjusted book value, adjusted to remove the effect of FG VIE consolidation, to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Non-GAAP operating income adjusted for the effect of FG VIE consolidation enables investors and analysts to evaluate the Company's financial results in comparison with the consensus analyst estimates distributed publicly by financial databases.

The core financial measures that the Company uses to help determine compensation are: (1) non-GAAP operating income, adjusted to remove the effect of FG VIE consolidation, (2) non-GAAP operating shareholders' equity, adjusted to remove the effect of FG VIE consolidation, (3) growth in non-GAAP adjusted book value per share, adjusted to remove the effect of FG VIE consolidation, and (4) PVP.

The following paragraphs define each non-GAAP financial measure disclosed by the Company and describe why it is useful. To the extent there is a directly comparable GAAP financial measure, a reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure is presented below.

Non-GAAP Operating Income

Management believes that non-GAAP operating income is a useful measure because it clarifies the understanding of the underwriting results and financial condition of the Company and presents the results of operations of the Company excluding the fair value adjustments on credit derivatives and CCS that are not expected to result in economic gain or loss, as well as other adjustments described below. Management adjusts non-GAAP operating income further by removing FG VIE consolidation to arrive at its core operating income measure. Non-GAAP operating income is defined as net income (loss) attributable to AGL, as reported under GAAP, adjusted for the following:

1) Elimination of realized gains (losses) on the Company's investments, except for gains and losses on securities classified as trading. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile.

2) Elimination of non-credit-impairment unrealized fair value gains (losses) on credit derivatives that are recognized in net income, which is the amount of unrealized fair value gains (losses) in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, the Company's credit spreads, and other market factors and are not expected to result in an economic gain or loss.

- 3) Elimination of fair value gains (losses) on the Company's CCS that are recognized in net income. Such amounts are affected by changes in market interest rates, the Company's credit spreads, price indications on the Company's publicly traded debt, and other market factors and are not expected to result in an economic gain or loss.

- 4) Elimination of foreign exchange gains (losses) on remeasurement of net premium receivables and loss and LAE reserves that are recognized in net income. Long-dated receivables and loss and LAE reserves represent the present value of future contractual or expected cash flows. Therefore, the current period's foreign exchange remeasurement gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.

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- 5) Elimination of the tax effects related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

Reconciliation of Net Income (Loss)
to Non-GAAP Operating Income

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Net income (loss)	\$521	\$730	\$881
Less pre-tax adjustments:			
Realized gains (losses) on investments	(32)	40	(30)
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	101	43	36
Fair value gains (losses) on CCS (1)	14	(2)	—
Foreign exchange gains (losses) on remeasurement of premiums receivable and loss and LAE reserves (1)	(32)	57	(33)
Total pre-tax adjustments	51	138	(27)
Less tax effect on pre-tax adjustments	(12)	(69)	13
Non-GAAP operating income	\$482	\$661	\$895
Gain (loss) related to FG VIE consolidation (net of tax provision (benefit) of \$(1), \$6 and \$7) included in non-GAAP operating income	\$(4)	\$11	\$12

(1) Included in other income (loss) in the consolidated statements of operations.

Non-GAAP Operating Shareholders' Equity and Non-GAAP Adjusted Book Value

Management believes that non-GAAP operating shareholders' equity is a useful measure because it presents the equity of the Company excluding the fair value adjustments on investments, credit derivatives and CCS that are not expected to result in economic gain or loss, along with other adjustments described below. Management adjusts non-GAAP operating shareholders' equity further by removing FG VIE consolidation to arrive at its core operating shareholders' equity and core adjusted book value.

Non-GAAP operating shareholders' equity is the basis of the calculation of non-GAAP adjusted book value (see below). Non-GAAP operating shareholders' equity is defined as shareholders' equity attributable to AGL, as reported under GAAP, adjusted for the following:

1) Elimination of non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount of unrealized fair value gains (losses) in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.

2) Elimination of fair value gains (losses) on the Company's CCS. Such amounts are affected by changes in market interest rates, the Company's credit spreads, price indications on the Company's publicly traded debt, and other market factors and are not expected to result in an economic gain or loss.

3) Elimination of unrealized gains (losses) on the Company's investments that are recorded as a component of accumulated other comprehensive income (AOCI) (excluding foreign exchange remeasurement). The AOCI component of the fair value adjustment on the investment portfolio is not deemed economic because the Company generally holds these investments to maturity and therefore should not recognize an economic gain or loss.

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4) Elimination of the tax effects related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

Management uses non-GAAP adjusted book value, adjusted for FG VIE consolidation, to measure the intrinsic value of the Company, excluding franchise value. Growth in non-GAAP adjusted book value per share, adjusted for FG VIE consolidation (core adjusted book value), is one of the key financial measures used in determining the amount of certain long-term compensation elements to management and employees and used by rating agencies and investors. Management believes that non-GAAP adjusted book value is a useful measure because it enables an evaluation of the Company's in-force premiums and revenues net of expected losses. Non-GAAP adjusted book value is non-GAAP operating shareholders' equity, as defined above, further adjusted for the following:

1) Elimination of deferred acquisition costs, net. These amounts represent net deferred expenses that have already been paid or accrued and will be expensed in future accounting periods.

2) Addition of the net present value of estimated net future revenue. See below.

Addition of the deferred premium revenue on financial guaranty contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums, net of expected losses to be expensed, which are not reflected in GAAP equity.

4) Elimination of the tax effects related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

The unearned premiums and revenues included in non-GAAP adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current non-GAAP adjusted book value due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults and other factors.

Table of ContentsReconciliation of Shareholders' Equity
to Non-GAAP Adjusted Book Value

	As of December 31, 2018		As of December 31, 2017	
	After-Tax Per Share		After-Tax Per Share	
	(dollars in millions, except per share amounts)			
Shareholders' equity	\$6,555	\$ 63.23	\$ 6,839	\$ 58.95
Less pre-tax adjustments:				
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(45)	(0.44)	(146)	(1.26)
Fair value gains (losses) on CCS	74	0.72	60	0.52
Unrealized gain (loss) on investment portfolio excluding foreign exchange effect	247	2.39	487	4.20
Less taxes	(63)	(0.61)	(83)	(0.71)
Non-GAAP operating shareholders' equity	6,342	61.17	6,521	56.20
Pre-tax adjustments:				
Less: Deferred acquisition costs	105	1.01	101	0.87
Plus: Net present value of estimated net future revenue	204	1.96	146	1.26
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	3,005	28.98	2,966	25.56
Plus taxes	(524)	(5.04)	(512)	(4.41)
Non-GAAP adjusted book value	\$8,922	\$ 86.06	\$ 9,020	\$ 77.74
Gain (loss) related to FG VIE consolidation included in non-GAAP operating shareholders' equity (net of tax provision of \$1 and \$2)	\$3	\$ 0.03	\$5	\$ 0.03
Gain (loss) related to FG VIE consolidation included in non-GAAP adjusted book value (net of tax benefit of \$4 and \$3)	\$(15)	\$(0.15)	\$(14)	\$(0.12)

Net Present Value of Estimated Net Future Revenue

Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated revenue for contracts other than financial guaranty insurance contracts (such as non-financial guaranty insurance contracts and credit derivatives). There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from these contracts, net of reinsurance, ceding commissions and premium taxes, for contracts without expected economic losses, and is discounted at 6%. Estimated net future revenue may change from period to period due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults or other factors that affect par outstanding or the ultimate maturity of an obligation.

PVP or Present Value of New Business Production

Management believes that PVP is a useful measure because it enables the evaluation of the value of new business production for the Company by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period as well as premium supplements and additional installment premium on existing contracts as to which the issuer has the right to call the insured obligation but has not exercised such right, whether in insurance or credit derivative contract form, which management believes GAAP gross written premiums

and the net credit derivative premiums received and receivable portion of net realized gains and other settlements on credit derivatives (Credit Derivative Realized Gains (Losses)) do not adequately measure. PVP in respect of contracts written in a specified period is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums, discounted, in each case, at 6%. Under GAAP, financial guaranty installment premiums are discounted at a risk free rate. Additionally, under

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GAAP, management records future installment premiums on financial guaranty insurance contracts covering non-homogeneous pools of assets based on the contractual term of the transaction, whereas for PVP purposes, management records an estimate of the future installment premiums the Company expects to receive, which may be based upon a shorter period of time than the contractual term of the transaction. Actual future earned or written premiums and Credit Derivative Realized Gains (Losses) may differ from PVP due to factors including, but not limited to, changes in foreign exchange rates, prepayment speeds, terminations, credit defaults, or other factors that affect par outstanding or the ultimate maturity of an obligation.

Reconciliation of GWP to PVP

	Year Ended December 31, 2018				
	Public Finance		Structured Finance		
	Non	Non	Non	Non	Total
	U.S.	-	U.S.	-	U.S.
	U.S.	U.S.	U.S.	U.S.	U.S.
	(in millions)				
GWP	\$320	\$115	\$167	\$10	\$612
Less: Installment GWP and other GAAP adjustments (1)	34	75	9	1	119
Upfront GWP	286	40	158	9	493
Plus: Installment premium PVP (2)	105	54	8	3	170
PVP	\$391	\$94	\$166	\$12	\$663
	Year Ended December 31, 2017				
	Public Finance		Structured Finance		
	Non	Non	Non	Non	Total
	U.S.	-	U.S.	-	U.S.
	U.S.	U.S.	U.S.	U.S.	U.S.
	(in millions)				
GWP	\$190	\$105	\$(1)	\$13	\$307
Less: Installment GWP and other GAAP adjustments (1)	(3)	103	(1)	—	99
Upfront GWP	193	2	—	13	208
Plus: Installment premium PVP	3	64	12	2	81
PVP	\$196	\$66	\$12	\$15	\$289
	Year Ended December 31, 2016				
	Public Finance		Structured Finance		
	Non	Non	Non	Non	Total
	U.S.	-	U.S.	-	U.S.
	U.S.	U.S.	U.S.	U.S.	U.S.
	(in millions)				
GWP	\$142	\$15	\$(1)	\$(2)	\$154
Less: Installment GWP and other GAAP adjustments (1)	(19)	15	(4)	(2)	(10)
Upfront GWP	161	—	3	—	164
Plus: Installment premium PVP	—	25	24	1	50

PVP \$161 \$25 \$27 \$1 \$214

Includes present value of new business on installment policies discounted at the prescribed GAAP discount rates, (1)GWP adjustments on existing installment policies due to changes in assumptions, any cancellations of assumed reinsurance contracts, and other GAAP adjustments.

(2)Includes PVP of credit derivatives assumed in the SGI Transaction in 2018.

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Insured Portfolio

Financial Guaranty Exposure

The following table presents the insured financial guaranty portfolio by sector net of cessions to reinsurers. It includes all financial guaranty contracts outstanding as of the dates presented, regardless of the form written (i.e., credit derivative form or traditional financial guaranty insurance form) or the applicable accounting model (i.e., insurance, derivative or VIE consolidation). The Company purchases securities that it has insured, and for which it has expected losses to be paid, in order to mitigate the economic effect of insured losses (loss mitigation securities). The Company excludes amounts attributable to loss mitigation securities from par and scheduled principal and interest payments (debt service) outstanding. These amounts are included in the investment portfolio, because the Company manages such securities as investments and not insurance exposure. As of December 31, 2018 and December 31, 2017, the Company excluded \$1.9 billion and \$2.0 billion, respectively, of net par attributable to loss mitigation strategies. See Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, for additional information.

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Financial Guaranty

Net Par Outstanding and Average Internal Rating by Sector

Sector	As of December 31, 2018		As of December 31, 2017	
	Net Par Outstanding (dollars in millions)	Avg. Rating	Net Par Outstanding	Avg. Rating
Public finance:				
U.S.:				
General obligation	\$78,800	A-	\$90,705	A-
Tax backed	40,616	A-	44,350	A-
Municipal utilities	28,462	A-	32,357	A-
Transportation	15,197	A-	17,030	A-
Healthcare	6,750	A-	8,763	A
Higher education	6,643	A-	8,195	A
Infrastructure finance	5,489	A-	4,216	BBB+
Housing revenue	1,435	BBB+	1,319	BBB+
Investor-owned utilities	1,001	A-	523	A-
Other public finance—U.S.	2,169	A-	1,934	A
Total public finance—U.S.	186,562	A-	209,392	A-
Non-U.S.:				
Regulated utilities	18,325	BBB+	16,689	BBB+
Infrastructure finance	17,216	BBB	18,234	BBB
Pooled infrastructure	1,373	AAA	1,561	AAA
Other public finance	7,189	A	6,438	A
Total public finance—non-U.S.	44,103	BBB+	42,922	BBB+
Total public finance	230,665	A-	252,314	A-
Structured finance:				
U.S.:				
RMBS	4,270	BBB-	4,818	BBB-
Insurance securitizations	1,435	A+	1,449	A+
Consumer receivables	1,255	A-	1,590	A-
Pooled corporate obligations	1,215	AA-	1,347	A
Financial products	1,094	AA-	1,418	AA-
Other structured finance—U.S.	675	A-	602	A
Total structured finance—U.S.	9,944	A-	11,224	BBB+
Non-U.S.:				
RMBS	576	A-	637	A-
Pooled corporate obligations	126	A	157	A+
Other structured finance	491	A	620	A
Total structured finance—non-U.S.	1,193	A	1,414	A
Total structured finance	11,137	A-	12,638	A-
Total net par outstanding	\$241,802	A-	\$264,952	A-

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The following table sets forth the Company's net financial guaranty portfolio by internal rating.

Financial Guaranty Portfolio by Internal Rating

Rating Category	As of December 31, 2018		As of December 31, 2017	
	Net Par Outstanding (dollars in millions)	%	Net Par Outstanding (dollars in millions)	%
AAA	\$4,618	1.9 %	\$5,392	2.1 %
AA	27,021	11.2	34,212	12.9
A	119,415	49.4	134,396	50.7
BBB	80,588	33.3	78,714	29.7
BIG	10,160	4.2	12,238	4.6
Total net par outstanding	\$241,802	100.0%	\$264,952	100.0%

The tables below show the Company's ten largest U.S. public finance, U.S. structured finance and non-U.S. exposures by revenue source, excluding related authorities and public corporations, as of December 31, 2018:

Ten Largest U.S. Public Finance Exposures
by Revenue Source
As of December 31, 2018

	Net Par Outstanding (dollars in millions)	Percent of Total U.S. Public Finance Net Par Outstanding (dollars in millions)	Rating
New Jersey (State of)	\$4,245	2.3 %	BBB
Pennsylvania (Commonwealth of)	1,986	1.1	A-
Illinois (State of)	1,967	1.0	BBB
Puerto Rico, General Obligation, Appropriations and Guarantees of the Commonwealth	1,498	0.8	CCC
Puerto Rico Highways & Transportation Authority	1,319	0.7	CCC
Chicago (City of) Illinois	1,300	0.7	BBB
North Texas Tollway Authority	1,242	0.7	A
California (State of)	1,177	0.6	A
Massachusetts (Commonwealth of)	1,160	0.6	AA-
Wisconsin (State of)	1,124	0.6	A+
Total of top ten U.S. public finance exposures	\$17,018	9.1 %	

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Ten Largest U.S. Structured Finance Exposures

As of December 31, 2018

	Net Par Outstanding	Percent of Total U.S. Structured Finance Net Par Outstanding (dollars in millions)	Rating
Private US Insurance Securitization	\$500	5.0 %	AA
SLM Private Credit Student Trust 2007-A	500	5.0	A+
Private US Insurance Securitization	424	4.3	AA
SLM Private Credit Student Loan Trust 2006-C	257	2.6	AA-
Private US Insurance Securitization	250	2.5	AA
Brightwood Fund III Static 2018-1, LLC	231	2.3	A-
Option One 2007-FXD2	196	2.0	CCC
Timberlake Financial, LLC Floating Insured Notes	175	1.8	BBB-
Soundview 2007-WMC1	160	1.6	CCC
Countrywide HELOC 2006-I	132	1.3	BBB-
Total of top ten U.S. structured finance exposures	\$2,825	28.4 %	

Ten Largest Non-U.S. Exposures

As of December 31, 2018

	Country	Net Par Outstanding	Percent of Total Non-U.S. Net Par Outstanding (dollars in millions)	Rating
Southern Water Services Limited	United Kingdom	\$2,592	5.7 %	A-
Hydro-Quebec, Province of Quebec	Canada	2,060	4.5	A+
Thames Water Utility Finance PLC	United Kingdom	1,900	4.2	A-
Societe des Autoroutes du Nord et de l'Est de France S.A.	France	1,727	3.8	BBB+
Southern Gas Networks PLC	United Kingdom	1,635	3.6	BBB
Anglian Water Services Financing	United Kingdom	1,415	3.1	A-
Dwr Cymru Financing Limited	United Kingdom	1,392	3.1	A-
British Broadcasting Corporation (BBC)	United Kingdom	1,296	2.9	A+
National Grid Gas PLC	United Kingdom	1,247	2.8	BBB+
Channel Link Enterprises Finance PLC	France, United Kingdom	1,206	2.7	BBB
Total of top ten non-U.S. exposures		\$16,470	36.4 %	

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Financial Guaranty Portfolio by Geographic Area

The following table sets forth the geographic distribution of the Company's financial guaranty portfolio.

Geographic Distribution
of Financial Guaranty Portfolio
As of December 31, 2018

	Number of Risks	Net Par Outstanding	Percent of Total Net Par Outstanding	
				(dollars in millions)
U.S.:				
California	1,361	\$ 33,847	14.0	%
Texas	1,154	16,915	7.0	
Pennsylvania	704	16,866	7.0	
New York	829	15,077	6.2	
Illinois	642	14,914	6.2	
New Jersey	370	10,998	4.5	
Florida	273	8,518	3.5	
Michigan	349	5,635	2.3	
Puerto Rico	18	4,767	2.0	
Alabama	289	4,230	1.7	
Other	2,726	54,795	22.7	
Total U.S. public finance	8,715	186,562	77.1	
U.S. Structured finance (multiple states)	485	9,944	4.1	
Total U.S.	9,200	196,506	81.2	
Non-U.S.:				
United Kingdom	130	31,128	12.9	
France	10	3,189	1.3	
Canada	9	2,659	1.1	
Australia	11	2,103	0.9	
Italy	8	1,176	0.5	
Other	45	5,041	2.1	
Total non-U.S.	213	45,296	18.8	
Total	9,413	\$ 241,802	100.0	%

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Financial Guaranty Portfolio by Issue Size

The Company seeks broad coverage of the market by insuring and reinsuring small and large issues alike. The following tables set forth the distribution of the Company's portfolio by original size of the Company's exposure.

Public Finance Portfolio by Issue Size

As of December 31, 2018

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Public Finance Net Par Outstanding	
	(dollars in millions)			
Less than \$10 million	12,717	\$ 32,730	14.2	%
\$10 through \$50 million	4,047	64,982	28.2	
\$50 through \$100 million	693	36,171	15.7	
\$100 million to \$200 million	372	37,960	16.4	
\$200 million or greater	229	58,822	25.5	
Total	18,058	\$ 230,665	100.0	%

Structured Finance Portfolio by Issue Size

As of December 31, 2018

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Structured Finance Net Par Outstanding	
	(dollars in millions)			
Less than \$10 million	154	\$ 77	0.7	%
\$10 through \$50 million	178	1,235	11.1	
\$50 through \$100 million	64	1,464	13.1	
\$100 million to \$200 million	82	2,657	23.9	
\$200 million or greater	104	5,704	51.2	
Total	582	\$ 11,137	100.0	%

Exposure to Puerto Rico

The Company had insured exposure to general obligation bonds of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and various obligations of its related authorities and public corporations aggregating \$4.8 billion net par as of December 31, 2018, all of which was rated BIG. Puerto Rico experienced significant general fund budget deficits and a challenging economic environment since at least the financial crisis. In 2017, Hurricane Maria created additional challenges for Puerto Rico. Beginning on January 1, 2016, a number of Puerto Rico exposures have defaulted on bond payments, and the Company has now paid claims on all of its Puerto Rico exposures except for Puerto Rico Aqueduct and Sewer Authority (PRASA), Municipal Finance Agency (MFA) and University of Puerto Rico (U of PR). Additional information about recent developments in Puerto Rico and the individual exposures insured by the Company may be found in Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding

Exposure.

The Company groups its Puerto Rico exposure into three categories:

Constitutionally Guaranteed. The Company includes in this category public debt benefiting from Article VI of the Constitution of the Commonwealth, which expressly provides that interest and principal payments on the public debt are to be paid before other disbursements are made.

Public Corporations – Certain Revenues Potentially Subject to Clawback. The Company includes in this category the debt of public corporations for which applicable law permits the Commonwealth to claw back,

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subject to certain conditions and for the payment of public debt, at least a portion of the revenues supporting the bonds the Company insures. As a constitutional condition to clawback, available Commonwealth revenues for any fiscal year must be insufficient to pay Commonwealth debt service before the payment of any appropriations for that year. The Company believes that this condition has not been satisfied to date, and accordingly that the Commonwealth has not to date been entitled to claw back revenues supporting debt insured by the Company.

Other Public Corporations. The Company includes in this category the debt of public corporations that are supported by revenues it does not believe are subject to clawback.

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Exposure to Puerto Rico
As of December 31, 2018

	Net Par Outstanding				Total Net Par Outstanding	Gross Par Outstanding
	AGM	AGC	AG Re	Eliminations (1)		
	(in millions)					
Commonwealth Constitutionally Guaranteed Commonwealth of Puerto Rico - General Obligation Bonds (2) (3)	\$ 647	\$ 301	\$ 393	\$ (1)	\$ 1,340	\$ 1,383
Puerto Rico Public Buildings Authority (PBA) Public Corporations - Certain Revenues Potentially Subject to Clawback	9	142	—	(9)	142	148
PRHTA (Transportation revenue) (3)	233	495	195	(79)	844	874
PRHTA (Highway revenue) (3)	351	84	40	—	475	536
Puerto Rico Convention Center District Authority (PRCCDA)	—	152	—	—	152	152
Puerto Rico Infrastructure Financing Authority (PRIFA)	—	15	1	—	16	16
Other Public Corporations						
Puerto Rico Electric Power Authority (PREPA) (3)	544	72	232	—	848	866
PRASA	—	284	89	—	373	373
MFA	189	40	74	—	303	349
COFINA (4)	264	—	9	—	273	273
U of PR	—	1	—	—	1	1
Total exposure to Puerto Rico	\$ 2,237	\$ 1,586	\$ 1,033	\$ (89)	\$ 4,767	\$ 4,971

- (1) Net par outstanding eliminations relate to second-to-pay policies under which an Assured Guaranty insurance subsidiary guarantees an obligation already insured by another Assured Guaranty insurance subsidiary.
- (2) Includes exposure to capital appreciation bonds with a current aggregate net par outstanding of \$2 million and fully accreted net par at maturity of \$3 million.
- (3) As of the date of this filing, the seven-member financial oversight board established by PROMESA has certified a filing under Title III of PROMESA for these exposures.
- (4) As of the date of this filing, a plan of adjustment under PROMESA is effective for this credit.

The following tables show the scheduled amortization of the general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations insured by the Company. The Company guarantees payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. In the event that obligors default on their obligations, the Company would only pay the shortfall between the principal and interest due in any given period and the amount paid by the obligors.

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Amortization Schedule
of Net Par Outstanding of Puerto Rico
As of December 31, 2018

	Scheduled Net Par Amortization												Total	
	2019 (1Q)	2019 (2Q)	2019 (3Q)	2019 (4Q)	2020	2021	2022	2023	2024 -2028	2029 -2033	2034 -2038	2039 -2043		2044 -2047
Commonwealth Constitutionally Guaranteed														
Commonwealth of Puerto Rico - General Obligation Bonds	\$-	\$87	\$	\$141	\$15	\$37	\$14	\$298	\$341	\$407	\$—	\$—	\$1,340	
PBA	—	3	—	5	13	—	7	58	36	20	—	—	142	
Public Corporations - Certain Revenues Potentially Subject to Clawback														
PRHTA (Transportation revenue)	—	32	—	25	18	28	33	120	127	296	165	—	844	
PRHTA (Highway revenue)	—	21	—	22	35	6	32	77	145	137	—	—	475	
PRCCDA	—	—	—	—	—	—	—	19	50	83	—	—	152	
PRIFA	—	—	—	—	—	—	2	—	—	3	11	—	16	
Other Public Corporations														
PREPA	—	26	—	48	28	28	95	440	174	9	—	—	848	
PRASA	—	—	—	—	—	—	—	110	—	2	—	261	373	
MFA	—	55	—	45	40	40	22	91	10	—	—	—	303	
COFINA	—	—	—	(1)	(2)	(2)	1	(8)	20	11	254	—	273	
U of PR	—	—	—	—	—	—	—	—	1	—	—	—	1	
Total	\$-	\$224	\$	\$285	\$147	\$137	\$206	\$1,205	\$904	\$968	\$430	\$261	\$4,767	

Amortization Schedule
of Net Debt Service Outstanding of Puerto Rico
As of December 31, 2018

	Scheduled Net Debt Service Amortization												Total	
	2019 (1Q)	2019 (2Q)	2019 (3Q)	2019 (4Q)	2020	2021	2022	2023	2024 -2028	2029 -2033	2034 -2038	2039 -2043		2044 -2047
Commonwealth Constitutionally Guaranteed														
Commonwealth of Puerto Rico - General Obligation Bonds	\$35	\$—	\$121	\$—	\$206	\$74	\$94	\$71	\$538	\$512	\$457	\$—	\$—	\$2,108
PBA	3	—	7	—	12	20	6	13	84	51	23	—	—	219
Public Corporations - Certain Revenues Potentially Subject to Clawback														
PRHTA (Transportation revenue)	22	—	54	—	67	59	68	72	295	262	374	180	—	1,453
PRHTA (Highway revenue)	13	—	34	—	46	58	27	52	159	208	152	—	—	749
PRCCDA	3	—	4	—	7	7	7	7	53	78	91	—	—	257
PRIFA	—	—	—	—	1	1	1	2	5	3	7	12	—	32

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Other Public Corporations

PREPA	17	3	43	3	87	63	62	128	540	198	10	—	—	1,154
PRASA	10	—	10	—	19	19	19	19	197	68	70	68	300	799
MFA	8	—	62	—	58	50	48	28	106	11	—	—	—	371
COFINA	6	—	6	—	13	13	13	16	66	95	76	296	—	600
U of PR	—	—	—	—	—	—	—	—	—	1	—	—	—	1
Total	\$117	\$ 3	\$341	\$ 3	\$516	\$364	\$345	\$408	\$2,043	\$1,487	\$1,260	\$ 556	\$ 300	\$7,743

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Financial Guaranty Exposure to U.S. Residential Mortgage-Backed Securities

The table below provides information on certain risk characteristics of the Company's financial guaranty insurance, FG VIE and credit derivative U.S. RMBS exposures. As of December 31, 2018, U.S. RMBS net par outstanding was \$4.3 billion, of which \$2.4 billion was rated BIG. U.S. RMBS exposures represent 2% of the total net par outstanding, and BIG U.S. RMBS represent 24% of total BIG net par outstanding as of December 31, 2018. See Item 8, Financial Statements and Supplementary Data, Note 5, Expected Loss to be Paid, for a discussion of expected losses to be paid on U.S. RMBS exposures.

Distribution of U.S. RMBS by Year Insured and Type of Exposure as of December 31, 2018

Year insured:	Prime First Lien	Alt-A First Lien	Option ARMs	Subprime First Lien	Second Lien	Total Net Par Outstanding
	(in millions)					
2004 and prior	\$ 27	\$ 23	\$ 2	\$ 724	\$ 68	\$ 844
2005	62	241	29	233	172	737
2006	47	49	14	375	267	752
2007	—	388	42	1,049	398	1,877
2008	—	—	—	60	—	60
Total exposures	\$ 136	\$ 701	\$ 87	\$ 2,441	\$ 905	\$ 4,270

Financial Guaranty Exposure to the U.S. Virgin Islands

See Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

Non-Financial Guaranty Exposure

The Company also provides non-financial guaranty insurance and reinsurance on transactions with similar risk profiles to its structured finance exposures written in financial guaranty form. All non-financial guaranty exposures shown in the table below are rated investment grade internally.

Non-Financial Guaranty Exposure

	Gross Exposure		Net Exposure	
	As of December 31, 2018	As of December 31, 2017	As of December 31, 2018	As of December 31, 2017
	(in millions)			
Life insurance capital relief transactions	\$ 880	\$ 773	\$ 763	\$ 675
Aircraft RVI policies	340	201	218	140

(1) The life insurance capital relief transactions net exposure is expected to increase to approximately \$1.0 billion prior to September 30, 2036.

Reinsurance Exposures

The Company has exposure to reinsurers through reinsurance arrangements (both as a ceding company and as an assuming company).

Assumed outstanding exposure represents the amount of exposure assumed by the Company from third party insurers and reinsurers. Under these relationships, the Company assumes a portion of the ceding company's insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums.

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Ceded outstanding exposure represents the portion of insured risk ceded to external reinsurers. Under these relationships, the Company has ceded a portion of its insured risk to the reinsurer in exchange for the reinsurer receiving a share of the Company's premiums for the insured risk (typically, net of a ceding commission). The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. The Company's ceded contracts generally allow the Company to recapture ceded financial guaranty business after certain triggering events, such as reinsurer downgrades. In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. The total collateral posted by all non-affiliated reinsurers as of December 31, 2018 was approximately \$80 million.

Liquidity and Capital Resources

Liquidity Requirements and Sources

AGL and its Holding Company Subsidiaries

The liquidity of AGL, AGUS and AGMH is largely dependent on dividends from their operating subsidiaries and their access to external financing. The liquidity requirements of these entities include the payment of operating expenses, interest on debt issued by AGUS and AGMH, and dividends on AGL's common shares. AGL and its holding company subsidiaries may also require liquidity to make periodic capital investments in their operating subsidiaries, purchase the Company's outstanding debt, or in the case of AGL, to repurchase its common shares pursuant to its share repurchase authorization. In the ordinary course of business, the Company evaluates its liquidity needs and capital resources in light of holding company expenses and dividend policy, as well as rating agency considerations. The Company also subjects its cash flow projections and its assets to a stress test, maintaining a liquid asset balance of one time its stressed operating company net cash flows. Management believes that AGL will have sufficient liquidity to satisfy its needs over the next twelve months. See "Distributions From Subsidiaries" below for a discussion of the dividend restrictions of its insurance company subsidiaries.

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The following table presents significant holding company cash flow activity (other than investment income, expenses and taxes) related to distributions from subsidiaries and outflows for debt service and dividends, dividends to AGL shareholders and other capital management activities.

AGL and U.S. Holding Company Subsidiaries
Significant Cash Flow Items

	AGL	AGUS	AGMH	Other Subsidiaries
	(in millions)			
Year ended December 31, 2018				
Intercompany sources	\$597	\$525	\$205	\$13
Intercompany (uses)	—	(485)	(192)	(663)
External sources (uses):				
Dividends paid to AGL shareholders	(71)	—	—	—
Repurchases of common shares (1)	(500)	—	—	—
Interest paid (2)	—	(58)	(41)	—
Purchase of AGMH's debt by AGUS	—	(100)	—	—
Year ended December 31, 2017				
Intercompany sources	\$595	\$391	\$322	\$16
Intercompany (uses)	—	(511)	(279)	(534)
External sources (uses):				
Dividends paid to AGL shareholders	(70)	—	—	—
Repurchases of common shares (1)	(501)	—	—	—
Interest paid (2)	—	(32)	(45)	—
Purchase of AGMH's debt by AGUS	—	(28)	—	—
Year ended December 31, 2016				
Intercompany sources	\$388	\$592	\$547	\$34
Intercompany (uses)	—	(322)	(513)	(726)
External sources (uses):				
Dividends paid to AGL shareholders	(69)	—	—	—
Repurchases of common shares (1)	(306)	—	—	—
Interest paid (2)	—	(49)	(46)	—

(1) See Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity, for additional information about share repurchases and authorizations.

(2) See Long-Term Obligations below for interest paid by subsidiary.

Distributions From Subsidiaries

The Company anticipates that for the next twelve months, amounts paid by AGL's direct and indirect insurance company subsidiaries as dividends or other distributions will be a major source of its liquidity. The insurance company subsidiaries' ability to pay dividends depends upon their financial condition, results of operations, cash requirements, other potential uses for such funds, and compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their states of domicile. Dividend restrictions

applicable to AGC, AGM, MAC, AG Re and AGRO are described in Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements.

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Dividend restrictions by insurance company subsidiary are as follows:

The maximum amount available during 2019 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$172 million, of which \$74 million is estimated to be available for distribution in the first quarter of 2019.

The maximum amount available during 2019 for AGC to distribute as ordinary dividends is approximately \$123 million, of which approximately \$42 million is available for distribution in the first quarter of 2019.

The maximum amount available during 2019 for MAC to distribute as dividends to MAC Holdings, which is owned by AGM and AGC, without regulatory approval is estimated to be approximately \$32 million, of which approximately \$5 million is available for distribution in the first quarter of 2019.

Based on the applicable law and regulations, in 2019 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$128 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$312 million as of December 31, 2018. Such dividend capacity is further limited by the actual amount of AG Re's unencumbered assets, which amount changes from time to time due in part to collateral posting requirements. As of December 31, 2018, AG Re had unencumbered assets of approximately \$416 million.

Based on the applicable law and regulations, in 2019 AGRO has the capacity to (i) make capital distributions in an aggregate amount up to \$21 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$96 million as of December 31, 2018. Such dividend capacity is further limited by the actual amount of AGRO's unencumbered assets, which amount changes from time to time due in part to collateral posting requirements. As of December 31, 2018, AGRO had unencumbered assets of approximately \$342 million.

Generally, dividends paid by a U.S. company to a Bermuda holding company are subject to a 30% withholding tax. After AGL became tax resident in the U.K., it became subject to the tax rules applicable to companies resident in the U.K., including the benefits afforded by the U.K.'s tax treaties. The income tax treaty between the U.K. and the U.S. reduces or eliminates the U.S. withholding tax on certain U.S. sourced investment income (to 5% or 0%), including dividends from U.S. subsidiaries to U.K. resident persons entitled to the benefits of the treaty.

Each of the Company's insurance company subsidiaries may, with the approval of the relevant regulator, repurchase shares of its stock from its parent, so providing its parent with additional liquidity. AGC made such repurchases in 2018, AGM made such repurchases in 2017 and 2016 and MAC made such repurchases in 2017. See Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements, for more information.

External Financing

From time to time, AGL and its subsidiaries have sought external debt or equity financing in order to meet their obligations. External sources of financing may or may not be available to the Company, and if available, the cost of such financing may not be acceptable to the Company.

Intercompany Loans and Guarantees

From time to time, AGL and its subsidiaries have entered into intercompany loan facilities. For example, on October 25, 2013, AGL, as borrower, and AGUS, as lender, entered into a revolving credit facility pursuant to which AGL may, from time to time, borrow for general corporate purposes. Under the credit facility, AGUS committed to lend a

principal amount not exceeding \$225 million in the aggregate. In September 2018, AGL and AGUS amended the revolving credit facility to extend the commitment until October 25, 2023 (the loan commitment termination date). The unpaid principal amount of each loan will bear semi-annual interest at a fixed rate equal to 100% of the then applicable interest rate as determined under Internal Revenue Code Section 1274(d), and interest on all loans will be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. Accrued interest on all loans will be paid on the last day of each June and December, beginning on December 31, 2013, and at maturity. AGL must repay the then unpaid principal amounts of the loans, if any, by the third anniversary of the loan termination date. AGL has not drawn upon the credit facility.

In addition, in 2012 AGUS borrowed \$90 million from its affiliate AGRO to fund the acquisition of MAC. In 2018 the maturity date was extended to November 2023. During 2018, 2017 and 2016, AGUS repaid \$10 million, \$10 million and \$20

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million, respectively, in outstanding principal as well as accrued and unpaid interest. As of December 31, 2018, \$50 million remained outstanding.

Furthermore, AGL fully and unconditionally guarantees the payment of the principal of, and interest on, the \$1,130 million aggregate principal amount of senior notes issued by AGUS and AGMH, and the \$450 million aggregate principal amount of junior subordinated debentures issued by AGUS and AGMH, in each case, as described under "Commitments and Contingencies -- Long-Term Debt Obligations" below.

Cash and Investments

As of December 31, 2018, AGL had \$45 million in cash and short-term investments. AGUS and AGMH had a total of \$192 million in cash and short-term investments. In addition, the Company's U.S. holding companies have \$26 million in fixed-maturity securities (excluding AGUS's investment in AGMH's debt) with weighted average duration of 1.3 years.

Insurance Company Subsidiaries

Liquidity of the insurance company subsidiaries is primarily used to pay for:

- operating expenses,
- claims on the insured portfolio,
- dividends or other distributions to AGL, AGUS and/or AGMH, as applicable,
- posting of collateral in connection with reinsurance and credit derivative transactions,
- reinsurance premiums,
- principal of and, where applicable, interest on surplus notes, and
- capital investments in their own subsidiaries, where appropriate.

Management believes that the insurance subsidiaries' liquidity needs for the next twelve months can be met from current cash, short-term investments and operating cash flow, including premium collections and coupon payments as well as scheduled maturities and paydowns from their respective investment portfolios. The Company targets a balance of its most liquid assets including cash and short-term securities, Treasuries, agency RMBS and pre-refunded municipal bonds equal to 1.5 times its projected operating company cash flow needs over the next four quarters. The Company intends to hold and has the ability to hold temporarily impaired debt securities until the date of anticipated recovery of amortized cost.

Beyond the next twelve months, the ability of the operating subsidiaries to declare and pay dividends may be influenced by a variety of factors, including market conditions, insurance regulations and rating agency capital requirements and general economic conditions.

Insurance policies issued provide, in general, that payments of principal, interest and other amounts insured may not be accelerated by the holder of the obligation. Amounts paid by the Company therefore are typically in accordance with the obligation's original payment schedule, unless the Company accelerates such payment schedule, at its sole option.

Payments made in settlement of the Company's obligations arising from its insured portfolio may, and often do, vary significantly from year-to-year, depending primarily on the frequency and severity of payment defaults and whether the Company chooses to accelerate its payment obligations in order to mitigate future losses.

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Claims (Paid) Recovered

	Year Ended December		
	31,		
	2018	2017	2016
	(in millions)		
Public finance	\$(396)	\$(263)	\$(216)
Structured finance:			
U.S. RMBS	159	48	(90)
Other structured finance	(9)	(14)	(48)
Structured finance	150	34	(138)
Claims (paid) recovered, net of reinsurance (1)	\$(246)	\$(229)	\$(354)

(1) Includes \$2 million, \$8 million and \$11 million paid in 2018, 2017 and 2016, respectively, for consolidated FG VIEs.

In addition, the Company has net par exposure to the general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.8 billion, all of which is rated BIG. Puerto Rico has experienced significant general fund budget deficits in recent years. Beginning in 2016, the Commonwealth and certain related authorities and public corporations have defaulted on obligations to make payments on its debt. In addition to high debt levels, Puerto Rico faces a challenging economic environment exacerbated by the impact of hurricane Maria in September 2017. Information regarding the Company's exposure to the Commonwealth of Puerto Rico and its related authorities and public corporations is set forth in Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

In connection with the acquisition of AGMH, AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. In a leveraged lease transaction, a tax-exempt entity (such as a transit agency) transfers tax benefits to a tax-paying entity by transferring ownership of a depreciable asset, such as subway cars. The tax-exempt entity then leases the asset back from its new owner.

If the lease is terminated early, the tax-exempt entity must make an early termination payment to the lessor. A portion of this early termination payment is funded from monies that were pre-funded and invested at the closing of the leveraged lease transaction (along with earnings on those invested funds). The tax-exempt entity is obligated to pay the remaining, unfunded portion of this early termination payment (known as the strip coverage) from its own sources. AGM issued financial guaranty insurance policies (known as strip policies) that guaranteed the payment of these unfunded strip coverage amounts to the lessor, in the event that a tax-exempt entity defaulted on its obligation to pay this portion of its early termination payment. Following such events, AGM can then seek reimbursement of its strip policy payments from the tax-exempt entity, and can also sell the transferred depreciable asset and reimburse itself from the sale proceeds.

Currently, all the leveraged lease transactions in which AGM acts as strip coverage provider are breaching a rating trigger related to AGM and are subject to early termination. However, early termination of a lease does not result in a draw on the AGM policy if the tax-exempt entity makes the required termination payment. If all the leases were to terminate early and the tax-exempt entities did not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$755 million as of December 31, 2018. To date, none of the leveraged lease transactions that involve AGM has experienced an early termination due to a lease default and a claim on the AGM policy. At December 31, 2018, approximately \$1.7 billion of cumulative strip par exposure had been terminated since 2008 on a consensual basis. The consensual terminations have resulted in no

claims on AGM.

The terms of the Company's CDS contracts generally are modified from standard CDS contract forms approved by ISDA in order to provide for payments on a scheduled "pay-as-you-go" basis and to replicate the terms of a traditional financial guaranty insurance policy. However, the Company may also be required to pay if the obligor becomes bankrupt or if the reference obligation were restructured if, after negotiation, those credit events are specified in the documentation for the credit derivative transactions. Furthermore, the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the Company may be required to make a cash termination payment to its swap counterparty upon such termination. Any such payment would probably occur prior to the maturity of the reference obligation and be in an amount larger than the amount due for that period on a "pay-as-you-go" basis.

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The transaction documentation with one counterparty for \$250 million of the CDS insured by AGC requires AGC to post collateral, subject to a cap, to secure its obligation to make payments under such contracts. As of December 31, 2018, AGC had posted \$1 million of collateral to satisfy these requirements and the maximum posting requirement was \$250 million.

Consolidated Cash Flows

Consolidated Cash Flow Summary

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Net cash flows provided by (used in) operating activities before effects of FG VIE consolidation	\$451	\$414	\$(156)
Effect of FG VIE consolidation	11	19	24
Net cash flows provided by (used in) operating activities - reported	462	433	(132)
Net cash flows provided by (used in) investing activities before effects of FG VIE consolidation	192	112	924
Acquisitions, net of cash acquired	—	95	(435)
Effect of FG VIE consolidation	105	138	587
Net cash flows provided by (used in) investing activities - reported	297	345	1,076
Net cash flows provided by (used in) financing activities before effects of FG VIE consolidation	(8)	(10)	8
Dividends paid	(71)	(70)	(69)
Repurchases of common stock	(500)	(501)	(306)
Repurchase of debt	(100)	(28)	—
Effect of FG VIE consolidation	(116)	(157)	(611)
Net cash flows provided by (used in) financing activities - reported (1)	(795)	(766)	(978)
Effect of exchange rate changes	(4)	5	(5)
Cash and restricted cash at beginning of period	144	127	166
Total cash and restricted cash at the end of the period	\$104	\$144	\$127

(1) Claims paid on consolidated FG VIEs are presented in the consolidated cash flow statements as a component of paydowns on FG VIEs' liabilities in financing activities as opposed to operating activities.

The most significant operating cash inflow in 2018 related to \$363 million received as consideration for the SGI Transaction. The most significant operating cash inflow in 2017 was \$426 million in commutation premiums. Operating cash flows were adversely affected by claim payments on Puerto Rico exposures in all three periods presented.

Investing activities primarily consisted of net sales (purchases) of fixed-maturity and short-term investments, paydowns on FG VIEs' assets, inflows for the MBIA UK Acquisition in 2017 and outflows for the CIFG Acquisition in 2016. The higher investing inflows in 2016 primarily related to sales of securities whose proceeds were used to fund the CIFG Acquisition and proceeds from the paydown of a large FG VIE.

Financing activities primarily consisted of share repurchases, debt extinguishment, paydowns of FG VIEs' liabilities, and dividends. The higher outflows from FG VIEs in 2016 were due to the paydown of a large transaction.

From January 1, 2019 through March 1, 2019, the Company repurchased an additional 1.2 million common shares. On February 27, 2019, the Board authorized share repurchases for an additional \$300 million. As of March 1, 2019, after

combining the remaining authorization and the new authorization, the Company was authorized to purchase \$350 million of its common shares. For more information about the Company's share repurchases and authorizations, see Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity.

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Commitments and Contingencies

Leases

The Company leases and occupies approximately 103,500 square feet in New York City through 2032. Subject to certain conditions, the Company has an option to renew the lease for five years at a fair market rent. In addition, AGL and its subsidiaries lease additional office space in various locations under non-cancelable operating leases which expire at various dates through 2029. See “–Contractual Obligations” or Item 8, Financial Statements and Supplementary Data, Note 15, Commitments and Contingencies, for lease payments due by period. Rent expense was \$9 million in 2018, \$9 million in 2017 and \$13 million in 2016.

Long-Term Debt Obligations

The Company has outstanding long-term debt issued primarily by AGUS and AGMH. All of AGUS's and AGMH's debt is fully and unconditionally guaranteed by AGL; AGL's guarantee of the junior subordinated debentures is on a junior subordinated basis. The outstanding principal, and interest paid, on long-term debt were as follows:

Principal Outstanding
and Interest Paid on Long-Term Debt

	Principal Amount		Interest Paid		
	As of December 31,		Year Ended December 31,		
	2018	2017	2018	2017	2016
	(in millions)				
AGUS	\$850	\$850	\$58	\$32	\$49
AGMH	730	730	46	46	46
AGM	5	6	—	—	—
AGMH's debt purchased by AGUS (1)	(128)	(28)	(5)	(1)	—
Total	\$1,457	\$1,558	\$99	\$77	\$95

Represents principal amount of Junior Subordinated Debentures issued by AGMH that has been purchased by (1) AGUS. See Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities, for additional information.

Issued by AGUS:

7% Senior Notes. On May 18, 2004, AGUS issued \$200 million of 7% Senior Notes due 2034 for net proceeds of \$197 million. Although the coupon on the Senior Notes is 7%, the effective rate is approximately 6.4%, taking into account the effect of a cash flow hedge. The notes are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest at the date of redemption or, if greater, the make-whole redemption price.

5% Senior Notes. On June 20, 2014, AGUS issued \$500 million of 5% Senior Notes due 2024 for net proceeds of \$495 million. The net proceeds from the sale of the notes were used for general corporate purposes, including the purchase of common shares of AGL. The notes are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest at the date of redemption or, if greater, the make-whole redemption price.

Series A Enhanced Junior Subordinated Debentures. On December 20, 2006, AGUS issued \$150 million of Debentures due 2066. The Debentures paid a fixed 6.4% rate of interest until December 15, 2016, and thereafter pay a floating rate of interest, reset quarterly, at a rate equal to three month LIBOR plus a margin equal to 2.38%. LIBOR may be discontinued. See the Risk Factor captioned "The Company may be adversely impacted by the transition from LIBOR as a reference rate" under Risks Related to the Financial, Credit and Financial Guaranty Markets in Part I, Item 1A, Risk Factors. AGUS may select at one or more times to defer payment of interest for one or more consecutive periods for up to ten years. Any unpaid interest bears interest at the then applicable rate. AGUS may not defer interest past the maturity date. The debentures are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest to the date of redemption.

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Issued by AGMH:

6 7/8% QUIBS. On December 19, 2001, AGMH issued \$100 million face amount of 6 7/8% QUIBS due December 15, 2101, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest up to but not including the date of redemption.

6.25% Notes. On November 26, 2002, AGMH issued \$230 million face amount of 6.25% Notes due November 1, 2102, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest up to but not including the date of redemption.

5.6% Notes. On July 31, 2003, AGMH issued \$100 million face amount of 5.6% Notes due July 15, 2103, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest up to but not including the date of redemption.

Junior Subordinated Debentures. On November 22, 2006, AGMH issued \$300 million face amount of Junior Subordinated Debentures with a scheduled maturity date of December 15, 2036 and a final repayment date of December 15, 2066. The final repayment date of December 15, 2066 may be automatically extended up to four times in five-year increments provided certain conditions are met. The debentures are redeemable, in whole or in part, at any time prior to December 15, 2036 at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price. Interest on the debentures will accrue from November 22, 2006 to December 15, 2036 at the annual rate of 6.4%. If any amount of the debentures remains outstanding after December 15, 2036, then the principal amount of the outstanding debentures will bear interest at a floating interest rate equal to one-month LIBOR plus 2.215% until repaid. LIBOR may be discontinued. See the Risk Factor captioned "The Company may be adversely impacted by the transition from LIBOR as a reference rate" under Risks Related to the Financial, Credit and Financial Guaranty Markets in Part I, Item 1A, Risk Factors. AGMH may elect at one or more times to defer payment of interest on the debentures for one or more consecutive interest periods that do not exceed ten years. In connection with the completion of this offering, AGMH entered into a replacement capital covenant for the benefit of persons that buy, hold or sell a specified series of AGMH long-term indebtedness ranking senior to the debentures. Under the covenant, the debentures will not be repaid, redeemed, repurchased or defeased by AGMH or any of its subsidiaries on or before the date that is twenty years prior to the final repayment date, except to the extent that AGMH has received proceeds from the sale of replacement capital securities. The proceeds from this offering were used to pay a dividend to the shareholders of AGMH. In 2018 and 2017, AGUS purchased \$100 million and \$28 million of par, respectively, of the debentures, which resulted in a loss on extinguishment of debt on a consolidated basis of \$34 million in 2018 and \$9 million in 2017. The Company may choose to make additional purchases of this or other Company debt in the future.

Committed Capital Securities

Each of AGC and AGM have entered into put agreements with four separate custodial trusts allowing AGC and AGM, respectively, to issue an aggregate of \$200 million of non-cumulative redeemable perpetual preferred securities to the trusts in exchange for cash. Each custodial trust was created for the primary purpose of issuing \$50 million face amount of CCS, investing the proceeds in high-quality assets and entering into put options with AGC or AGM, as applicable. The Company does not consider itself to be the primary beneficiary of the trusts and the trusts are not consolidated in Assured Guaranty's financial statements.

The trusts provide AGC and AGM access to new equity capital at their respective sole discretion through the exercise of the put options. Upon AGC's or AGM's exercise of its put option, the relevant trust will liquidate its portfolio of eligible assets and use the proceeds to purchase the AGC or AGM preferred stock, as applicable. AGC or AGM may use the proceeds from its sale of preferred stock to the trusts for any purpose, including the payment of claims. The

put agreements have no scheduled termination date or maturity. However, each put agreement will terminate if (subject to certain grace periods) specified events occur. Both AGC and AGM continue to have the ability to exercise their respective put options and cause the related trusts to purchase their preferred stock.

Prior to 2008 or 2007, the amounts paid on the CCS were established through an auction process. All of those auctions failed in 2008 or 2007, and the rates paid on the CCS increased to their respective maximums. The annualized rate on the AGC CCS is one-month LIBOR plus 250 bps, and the annualized rate on the AGM Committed Preferred Trust Securities (CPS) is one-month LIBOR plus 200 bps. LIBOR may be discontinued. See the Risk Factor captioned "The Company may be adversely impacted by the transition from LIBOR as a reference rate" under Risks Related to the Financial, Credit and Financial Guaranty Markets in Part I, Item 1A, Risk Factors.

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Contractual Obligations

The following table summarizes the Company's obligations under its contracts, including debt and lease obligations, and also includes estimated claim payments, based on its loss estimation process, under financial guaranty policies it has issued.

	As of December 31, 2018				
	Less		More		
	Than	1-3	3-5	Than	Total
	1	Years	Years	5	
	Year			Years	
	(in millions)				
Long-term debt(1):					
AGUS:					
7% Senior Notes	\$14	\$28	\$28	\$345	\$415
5% Senior Notes	25	50	50	525	650
Series A Enhanced Junior Subordinated Debentures	8	15	16	487	526
AGMH:					
6 ⁷ / ₈ % QUIBS	7	14	14	636	671
6.25% Notes	14	29	29	1,364	1,436
5.6% Notes	6	11	11	546	574
Junior Subordinated Debentures	19	38	38	1,126	1,221
AGM Notes Payable	2	1	1	1	5
Operating lease obligations (2)	9	17	17	72	115
Other compensation plans (3)	12	—	—	—	12
Estimated claim payments (4)	804	908	162	1,228	3,102
Ceded premium payable, net of commission	7	7	6	15	35
Other	6	—	—	—	6
Total	\$933	\$1,118	\$372	\$6,345	\$8,768

(1) Includes interest and principal payments. See Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities, for expected maturities of debt.

(2) Operating lease obligations exclude escalations in building operating costs and real estate taxes.

Amount excludes approximately \$69 million of liabilities under various supplemental retirement plans, which are fair valued and payable at the time of termination of employment by either employer or employee. Amount also (3) excludes approximately \$19 million of liabilities under Performance Retention Plan, which are payable at the time of vesting or termination of employment by either employer or employee. Given the nature of these awards, the Company is unable to determine the year in which they will be paid.

Claim payments represent estimated expected cash outflows under direct and assumed financial guaranty contracts, whether accounted for as insurance or credit derivatives, including claim payments under contracts in consolidated (4) FG VIEs. The amounts presented are not reduced for cessions under reinsurance contracts. Amounts include any benefit anticipated from excess spread or other recoveries within the contracts but do not reflect any benefit for recoveries under breaches of R&W. Amounts also exclude estimated recoveries related to past claims paid for policies in the public finance sector.

Investment Portfolio

The Company's principal objectives in managing its investment portfolio are to support the highest possible ratings for each operating company; to manage investment risk within the context of the underlying portfolio of insurance risk; to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and to maximize after-tax net investment income.

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The Company's fixed-maturity securities and short-term investments had a duration of 4.9 years and 5.3 years as of December 31, 2018 and December 31, 2017, respectively. Generally, the Company's fixed-maturity securities are designated as available-for-sale. For more information about the Investment Portfolio and a detailed description of the Company's valuation of investments see Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement and Note 10, Investments and Cash.

Fixed-Maturity Securities and Short-Term Investments
by Security Type

	As of December 31, 2018		As of December 31, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in millions)			
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$4,761	\$ 4,911	\$5,504	\$ 5,760
U.S. government and agencies	167	175	272	285
Corporate securities	2,175	2,136	1,973	2,018
Mortgage-backed securities (1):				
RMBS	999	982	852	861
Commercial mortgage-backed securities (CMBS)	542	539	540	549
Asset-backed securities	942	1,068	730	896
Non-U.S. government securities	298	278	316	305
Total fixed-maturity securities	9,884	10,089	10,187	10,674
Short-term investments	729	729	627	627
Total fixed-maturity and short-term investments	\$10,613	\$ 10,818	\$10,814	\$ 11,301

(1) U.S. government-agency obligations were approximately 48% of mortgage backed securities as of December 31, 2018 and 39% as of December 31, 2017, based on fair value.

The following tables summarize, for all fixed-maturity securities in an unrealized loss position as of December 31, 2018 and December 31, 2017, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

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Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2018

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	\$ 195	\$ (4)	\$ 658	\$ (14)	\$ 853	\$ (18)
U.S. government and agencies	11	—	24	(1)	35	(1)
Corporate securities	836	(19)	522	(33)	1,358	(52)
Mortgage-backed securities:						
RMBS	85	(2)	447	(32)	532	(34)
CMBS	111	(1)	164	(6)	275	(7)
Asset-backed securities	322	(4)	38	(1)	360	(5)
Non-U.S. government securities	83	(4)	99	(18)	182	(22)
Total	\$ 1,643	\$ (34)	\$ 1,952	\$ (105)	\$ 3,595	\$ (139)
Number of securities (1)		417		608		997
Number of securities with OTTI (1)		22		22		42

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2017

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	\$ 166	\$ (4)	\$ 281	\$ (7)	\$ 447	\$ (11)
U.S. government and agencies	151	—	18	(1)	169	(1)
Corporate securities	201	(1)	240	(17)	441	(18)
Mortgage-backed securities:						
RMBS	191	(5)	213	(12)	404	(17)
CMBS	29	—	80	(3)	109	(3)
Asset-backed securities	48	—	3	—	51	—
Non-U.S. government securities	20	—	140	(17)	160	(17)
Total	\$ 806	\$ (10)	\$ 975	\$ (57)	\$ 1,781	\$ (67)
Number of securities (1)		244		264		499
Number of securities with OTTI (1)		17		15		31

The number of securities does not add across because lots consisting of the same securities have been purchased at (1) different times and appear in both categories above (i.e., less than 12 months and 12 months or more). If a security appears in both categories, it is counted only once in the total column.

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Of the securities in an unrealized loss position for 12 months or more as of December 31, 2018, 38 securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of December 31, 2018 was \$43 million. As of December 31, 2017, of the securities in an unrealized loss position for 12 months or more, 28 securities had unrealized losses greater than 10% of book value with an unrealized loss of \$27 million. The Company considered the credit quality, cash flows, interest rate movements, ability to hold a security to recovery and intent to sell a security in determining whether a security had a credit loss. The Company determined that the unrealized losses recorded as of December 31, 2018 and December 31, 2017 were yield related and not the result of OTTI.

Changes in interest rates affect the value of the Company's fixed-maturity portfolio. As interest rates fall, the fair value of fixed-maturity securities generally increases and as interest rates rise, the fair value of fixed-maturity securities generally decreases. The Company's portfolio of fixed-maturity securities primarily consists of high-quality, liquid instruments.

The amortized cost and estimated fair value of the Company's available-for-sale fixed-maturity securities, 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.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of December 31, 2018

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	\$206	\$ 203
Due after one year through five years	1,507	1,497
Due after five years through 10 years	2,387	2,393
Due after 10 years	4,243	4,475
Mortgage-backed securities:		
RMBS	999	982
CMBS	542	539
Total	\$9,884	\$ 10,089

The following table summarizes the ratings distributions of the Company's investment portfolio as of December 31, 2018 and December 31, 2017. Ratings reflect the lower of Moody's and S&P classifications, except for bonds purchased for loss mitigation or other risk management strategies, which use Assured Guaranty's internal ratings classifications.

Distribution of
Fixed-Maturity Securities by Rating

Rating	As of December 31, 2018		As of December 31, 2017	
		%		%
AAA	15.7	%	14.3	%
AA	48.2		52.4	
A	19.8		18.9	
BBB	5.0		3.4	

BIG (1)	10.8		10.5	
Not rated	0.5		0.5	
Total	100.0	%	100.0	%

(1) Includes primarily loss mitigation and other risk management assets. See Item 8, Financial Statements and Supplementary Data, Note 10, Investments and Cash, for additional information.

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Based on fair value, investments and restricted cash that are either held in trust for the benefit of third party ceding insurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise pledged or restricted totaled \$266 million and \$287 million, as of December 31, 2018 and December 31, 2017, respectively. The investment portfolio also contains securities that are held in trust by certain AGL subsidiaries for the benefit of other AGL subsidiaries in accordance with statutory and regulatory requirements in the amount of \$1,855 million and \$1,677 million, based on fair value, as of December 31, 2018 and December 31, 2017, respectively.

In 2018, the Company terminated all of the CDS contracts with a counterparty as to which it had collateral posting obligations, and the collateral that the Company had been posting to that counterparty was all returned to the Company. The Company still has collateral posting obligations with respect to one counterparty. See Item 8, Financial Statements and Supplementary Data, Note 8, Contracts Accounted for as Credit Derivatives, for additional information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss due to factors that affect the overall performance of the financial markets or moves in market prices. The Company's primary market risk exposures include interest rate risk, foreign currency exchange rate risk and credit spread risk, and primarily affect the following areas.

The fair value of credit derivatives within the financial guaranty portfolio of insured obligations which fluctuate based on changes in credit spreads of the underlying obligations and the Company's own credit spreads.

The fair value of the investment portfolio is primarily driven by changes in interest rates and also affected by changes in credit spreads.

The fair value of the investment portfolio contains foreign denominated securities whose value fluctuates based on changes in foreign exchange rates.

The carrying value of premiums receivable include foreign denominated receivables whose value fluctuates based on changes in foreign exchange rates.

The fair value of the assets and liabilities of consolidated FG VIEs may fluctuate based on changes in prepayment spreads, default rates, interest rates, and house price depreciation/appreciation. The fair value of the FG VIEs' liabilities would also fluctuate based on changes in the Company's credit spread.

Sensitivity of Credit Derivatives to Credit Risk

Unrealized gains and losses on credit derivatives are a function of changes in credit spreads of the underlying obligations and the Company's own credit spread. Market liquidity could also impact valuations of the underlying obligations. The Company considers the impact of its own credit risk, together with credit spreads on the exposures that it insured through CDS contracts, in determining their fair value.

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 five-year CDS contracts traded on AGC at December 31, 2018 and December 31, 2017 was 110 bps and 163 bps, respectively. Movements in AGM's CDS prices no longer have a significant impact on the estimated fair value of the Company's credit derivative contracts due to the run-off of CDS exposure at AGM.

Historically, the price of CDS traded on AGC and AGM moved directionally the same as general market spreads, although this may not always be the case. 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. In certain circumstances, due to the fact that spread movements are not perfectly correlated, the narrowing or widening of the price of CDS traded on AGC can have a more significant financial statement impact than the changes in risks they assume.

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 structural 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 and AGM.

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The Company generally holds these credit derivative contracts to maturity. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be required to make a termination payment to its swap counterparty upon such termination. Absent such an event of default or termination event, the Company may not unilaterally terminate a CDS contract; however, the Company on occasion has mutually agreed with various counterparties to terminate certain CDS transactions. The unrealized gains and losses on derivative financial instruments will reduce to zero as the exposure approaches its maturity date, unless there is a payment default on the exposure or early termination. Given these facts, the Company does not actively hedge these exposures.

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 on AGC and AGM and on the risks that they both assume.

Effect of Changes in Credit Spread

	As of December 31, 2018		As of December 31, 2017	
	Estimated	Estimated	Estimated	Estimated
	Fair Value	Change	Fair Value	Change
Credit Spreads (1)	(Pre-Tax)	(Pre-Tax)	(Pre-Tax)	(Pre-Tax)
	(in millions)			
Increase of 25 bps	\$(348)	\$ (141)	\$(362)	\$ (93)
Base Scenario	(207)	—	(269)	—
Decrease of 25 bps	(143)	64	(213)	56
All transactions priced at floor	(101)	106	(105)	164

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

Sensitivity of Investment Portfolio to Interest Rate Risk

Interest rate risk is the risk that financial instruments' values will change due to changes in the level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. The Company is exposed to interest rate risk primarily in its investment portfolio. As interest rates rise for an available-for-sale investment portfolio, the fair value of fixed income securities generally decreases; as interests rates fall for an available-for-sale portfolio, the fair value of fixed-income securities generally increases. The Company's policy is generally to hold assets in the investment portfolio to maturity. Therefore, barring credit deterioration, interest rate movements do not result in realized gains or losses unless assets are sold prior to maturity. The Company does not hedge interest rate risk; instead, interest rate fluctuation risk is managed through the investment guidelines which limit duration and prohibit investment in historically high volatility sectors.

Interest rate sensitivity in the investment portfolio can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's fixed-maturity securities and short-term investments from instantaneous parallel shifts in interest rates.

Sensitivity to Change in Interest Rates on the Investment Portfolio

Increase (Decrease) in Fair Value from Changes in
Interest Rates

	300 Basis Point Decrease (in millions)	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
December 31, 2018	\$1,226	\$ 1,029	\$ 552	\$ (465)	\$ (996)	\$ (1,525)
December 31, 2017	1,162	1,033	552	(552)	(1,106)	(1,667)

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Sensitivity of Other Areas to Interest Rate Risk

Insurance

Fluctuation in interest rates also affects the demand for the Company's product. When interest rates are lower or when the market is otherwise relatively less risk averse, the spread between insured and uninsured obligations typically narrows and, as a result, financial guaranty insurance typically provides lower cost savings to issuers than it would during periods of relatively wider spreads. These lower cost savings generally lead to a corresponding decrease in demand and premiums obtainable for financial guaranty insurance. Changes in interest rates also impact the amount of losses in the future. In addition, increases in prevailing interest rate levels can lead to a decreased volume of capital markets activity and, correspondingly, a decreased volume of insured transactions.

In addition, fluctuations in interest rates also impact the performance of insured transactions where there are differences between the interest rates on the underlying collateral and the interest rates on the insured securities. For example, a rise in interest rates could increase the amount of losses the Company projects for certain RMBS, Triple-X life insurance securitizations, and student loan transactions. The impact of fluctuations in interest rates on such transactions varies, depending on, among other things, the interest rates on the underlying collateral and insured securities, the relative amounts of underlying collateral and liabilities, the structure of the transaction, and the sensitivity to interest rates of the behavior of the underlying borrowers and the value of the underlying assets.

In the case of RMBS, fluctuations in interest rates impact the amount of periodic excess spread, which is created when a trust's assets produce interest that exceeds the amount required to pay interest on the trust's liabilities. There are several RMBS transactions in the Company's insured portfolio which benefit from excess spread either by covering losses in a particular period, or reimbursing past claims under the Company's policies. As of December 31, 2018, the Company projects approximately \$148 million of excess spread for all of its RMBS transactions over their remaining lives.

Since RMBS excess spread is determined by the relationship between interest rates on the underlying collateral and the trust's certificates, it can be affected by unmatched moves in either of these interest rates. For example, modifications to underlying mortgage rates (e.g. rate reductions for troubled borrowers) can reduce excess spread since there would be no equivalent decrease in the interest rates of the trust's liabilities. Similarly, an upswing in short-term rates that increases the trust's certificate interest rate that is not met with equal increases to the interest rates on the underlying mortgages can decrease excess spread. These potential reductions in excess spread are often mitigated by an interest rate cap, which goes into effect once the collateral rate falls below the stated certificate rate. Interest due on most of the RMBS securities the Company insures are capped at the collateral rate. The Company is not obligated to pay additional claims when the collateral interest rate drops below the trust's certificate stated interest rate, rather this just causes the Company to lose the benefit of potential positive excess spread. Additionally, faster than expected prepayments can decrease the dollar amount of excess spread and therefore reduce the cash flow available to cover losses or reimburse past claims.

Interest Expense

Beginning in the fourth quarter of 2016, fluctuations in interest rates also impacts the Company's interest expense. On December 15, 2016, the series A enhanced junior subordinated debentures issued by AGUS began to accrue interest at a floating rate, reset quarterly, equal to three-month LIBOR plus a margin equal to 2.38% (prior to December 15, 2016, the debentures paid a fixed 6.4% rate of interest). The three-month LIBOR rate of 2.79% and 1.59% were used for the interest rate resets for December 15, 2018 and December 15, 2017, respectively. Increases to three-month LIBOR will cause the Company's interest expense to rise while decreases to three month LIBOR will lower the Company's interest expense. For example, if three-month LIBOR increases by 100 bps, the Company's annual interest

expense will increase by \$1.5 million. Conversely, if three-month LIBOR decreases by 100 bps, the Company's annual interest expense will decrease by \$1.5 million. LIBOR may be discontinued. See the Risk Factor captioned "The Company may be adversely impacted by the transition from LIBOR as a reference rate" under Risks Related to the Financial, Credit and Financial Guaranty Markets in Part I, Item 1A, Risk Factors.

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Sensitivity of Investment Portfolio to Foreign Exchange Rate Risk

Foreign exchange risk is the risk that a financial instrument's value will change due to a change in the foreign currency exchange rates. The Company has foreign denominated securities in its investment portfolio as well as foreign denominated premium receivables. The Company's material exposure is to changes in dollar/pound sterling and dollar/euro exchange rates. Securities denominated in currencies other than U.S. Dollar were 7.4% and 7.6% of the fixed-maturity securities and short-term investments as of December 31, 2018 and 2017, respectively. Changes in fair value of available-for-sale investments attributable to changes in foreign exchange rates are recorded in OCI. The increase in the sensitivity to movements in foreign exchange rates for premium receivables in 2017 is primarily due to the acquisition of MBIA UK.

Sensitivity to Change in Foreign Exchange Rates

Increase (Decrease) in Changes in Foreign Exchange Rates

	30%	20%	10%	10%	20%	30%
	Decrease	Decrease	Decrease	Increase	Increase	Increase
	(in millions)					

Investment Portfolio:

December 31, 2018	\$ (239)	\$ (159)	\$ (80)	\$ 80	\$ 159	\$ 239
December 31, 2017	(257)	(171)	(86)	86	171	257

Premium Receivables:

December 31, 2018	(192)	(128)	(64)	64	128	192
December 31, 2017	(190)	(127)	(63)	63	127	190

Sensitivity of FG VIEs' Assets and Liabilities to Market Risk

The fair value of the Company's FG VIEs' assets is generally sensitive to changes related to estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to some of these inputs could materially change the market value of the FG VIEs' assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIEs' assets is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically leads to a decrease in the fair value of FG VIEs' assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIEs' assets. The third-party utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithms designed to aggregate market color, received by the independent third-party, on comparable bonds.

The models to price the FG VIEs' liabilities used, where appropriate, the same inputs used in determining fair value of FG VIEs' assets and, for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest, taking into account the Company's own credit risk.

Significant changes to any of the inputs described above could materially change the timing of expected losses within the insured transaction which is a significant factor in determining the implied benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest for the tranches of debt issued by the FG VIEs that is insured by the Company. In general, extending the timing of expected loss payments by the Company into the future typically leads to a decrease in the value of the Company's insurance and a decrease in the fair value of the Company's

FG VIEs' liabilities with recourse, while a shortening of the timing of expected loss payments by the Company typically leads to an increase in the value of the Company's insurance and an increase in the fair value of the Company's FG VIEs' liabilities with recourse.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Assured Guaranty Ltd. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, of comprehensive income, of shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

March 1, 2019

We have served as the Company's auditor since 2003.

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Assured Guaranty Ltd.

Consolidated Balance Sheets

(dollars in millions except per share and share amounts)

	As of December 31, 2018	As of December 31, 2017
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$9,884 and \$10,187)	\$ 10,089	\$ 10,674
Short-term investments, at fair value	729	627
Other invested assets	55	94
Total investment portfolio	10,873	11,395
Cash	104	144
Premiums receivable, net of commissions payable	904	915
Ceded unearned premium reserve	59	119
Deferred acquisition costs	105	101
Salvage and subrogation recoverable	490	572
Financial guaranty variable interest entities' assets, at fair value	569	700
Other assets	499	487
Total assets	\$ 13,603	\$ 14,433
Liabilities and shareholders' equity		
Unearned premium reserve	\$ 3,512	\$ 3,475
Loss and loss adjustment expense reserve	1,177	1,444
Long-term debt	1,233	1,292
Credit derivative liabilities	209	271
Financial guaranty variable interest entities' liabilities with recourse, at fair value	517	627
Financial guaranty variable interest entities' liabilities without recourse, at fair value	102	130
Other liabilities	298	355
Total liabilities	7,048	7,594
Commitments and contingencies (see Note 15)		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 103,672,592 and 116,020,852 shares issued and outstanding)	1	1
Additional paid-in capital	86	573
Retained earnings	6,374	5,892
Accumulated other comprehensive income, net of tax of \$38 and \$89	93	372
Deferred equity compensation	1	1
Total shareholders' equity	6,555	6,839
Total liabilities and shareholders' equity	\$ 13,603	\$ 14,433

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

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Assured Guaranty Ltd.

Consolidated Statements of Operations

(dollars in millions except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenues			
Net earned premiums	\$548	\$690	\$864
Net investment income	398	418	408
Net realized investment gains (losses)	(32)	40	(29)
Net change in fair value of credit derivatives	112	111	98
Fair value gains (losses) on financial guaranty variable interest entities	14	30	38
Bargain purchase gain and settlement of pre-existing relationships	—	58	259
Commutation gains (losses)	(16)	328	8
Other income (loss)	(22)	64	31
Total revenues	1,002	1,739	1,677
Expenses			
Loss and loss adjustment expenses	64	388	295
Amortization of deferred acquisition costs	16	19	18
Interest expense	94	97	102
Other operating expenses	248	244	245
Total expenses	422	748	660
Income (loss) before income taxes	580	991	1,017
Provision (benefit) for income taxes			
Current	(15)	11	117
Deferred	74	250	19
Total provision (benefit) for income taxes	59	261	136
Net income (loss)	\$521	\$730	\$881
Earnings per share:			
Basic	\$4.73	\$6.05	\$6.61
Diluted	\$4.68	\$5.96	\$6.56

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

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income

(in millions)

	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	\$521	\$730	\$881
Change in net unrealized gains (losses) on:			
Investments with no other-than-temporary impairment, net of tax provision (benefit) of \$(32), \$27 and \$(42)	(215)	64	(89)
Investments with other-than-temporary impairment, net of tax provision (benefit) of \$(8), \$46 and \$13	(26)	89	25
Change in net unrealized gains (losses) on investments	(241)	153	(64)
Change in net unrealized gains (losses) on financial guaranty variable interest entities' liabilities with recourse, net of tax	2	—	—
Other, net of tax provision (benefit) of \$(2), \$2, and (5)	(8)	14	(24)
Other comprehensive income (loss)	(247)	167	(88)
Comprehensive income (loss)	\$274	\$897	\$793

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

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Assured Guaranty Ltd.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2018, 2017 and 2016

(dollars in millions, except share data)

	Common Shares Outstanding	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Equity Compensation	Total Shareholders' Equity
Balance at December 31, 2015	137,928,552	\$ 1	\$ 1,342	\$ 4,478	\$ 237	\$ 5	\$ 6,063
Net income	—	—	—	881	—	—	881
Dividends (\$0.52 per share)	—	—	—	(70)	—	—	(70)
Common stock repurchases	(10,721,248)	—	(306)	—	—	—	(306)
Share-based compensation and other	780,926	—	24	—	—	—	24
Other comprehensive loss	—	—	—	—	(88)	—	(88)
Balance at December 31, 2016	127,988,230	1	1,060	5,289	149	5	6,504
Net income	—	—	—	730	—	—	730
Dividends (\$0.57 per share)	—	—	—	(70)	—	—	(70)
Common stock repurchases	(12,669,643)	—	(501)	—	—	—	(501)
Share-based compensation and other	702,265	—	14	—	—	(4)	10
Other comprehensive income	—	—	—	—	167	—	167
Reclassification of stranded tax effects (see Note 1)	—	—	—	(56)	56	—	—
Other	—	—	—	(1)	—	—	(1)
Balance at December 31, 2017	116,020,852	\$ 1	\$ 573	\$ 5,892	\$ 372	\$ 1	\$ 6,839
Net income	—	—	—	521	—	—	521
Dividends (\$0.64 per share)	—	—	—	(71)	—	—	(71)
Common stock repurchases	(13,243,107)	—	(500)	—	—	—	(500)
Share-based compensation and other	894,847	—	13	—	—	—	13
Other comprehensive loss	—	—	—	—	(247)	—	(247)
Effect of adoption of ASU 2016-01 (see Note 1)	—	—	—	32	(32)	—	—
Balance at December 31, 2018	103,672,592	\$ 1	\$ 86	\$ 6,374	\$ 93	\$ 1	\$ 6,555

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 millions)

	Year Ended December 31,		
	2018	2017	2016
Operating Activities:			
Net Income	\$521	\$730	\$881
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Non-cash interest and operating expenses	36	26	39
Net amortization of premium (discount) on investments	(31)	(46)	(34)
Provision (benefit) for deferred income taxes	74	250	19
Net realized investment losses (gains)	32	(40)	29
Bargain purchase gain and settlement of pre-existing relationships	—	(58)	(259)
Change in premiums receivable, net of premiums and commissions payable	(6)	(69)	128
Change in ceded unearned premium reserve	58	90	22
Change in unearned premium reserve	39	(424)	(777)
Change in loss and loss adjustment expense reserve, net	(173)	142	(105)
Change in current income tax	(16)	(10)	27
Change in financial guaranty variable interest entities' assets and liabilities, net	(5)	(15)	(24)
Change in credit derivative assets and liabilities, net	(62)	(144)	(43)
Other	(5)	1	(35)
Net cash flows provided by (used in) operating activities	462	433	(132)
Investing activities			
Fixed-maturity securities:			
Purchases	(1,881)	(2,552)	(1,646)
Sales	1,180	1,701	1,365
Maturities	962	821	1,155
Short-term investments with maturities of over three months:			
Purchases	(243)	(255)	(190)
Sales	23	102	172
Maturities	207	191	134
Net sales (purchases) of short-term investments with maturities of less than three months	(84)	36	(99)
Net proceeds from paydowns on financial guaranty variable interest entities' assets	116	147	629
Acquisitions, net of cash acquired (see Note 2)	—	95	(435)
Proceeds from maturity of other invested asset	—	85	—
Other	17	(26)	(9)
Net cash flows provided by (used in) investing activities	297	345	1,076
Financing activities			
Dividends paid	(71)	(70)	(69)
Repurchases of common stock	(500)	(501)	(306)
Repurchases of common stock to pay withholding taxes	(13)	(13)	(2)
Net paydowns of financial guaranty variable interest entities' liabilities	(116)	(157)	(611)
Paydown of long-term debt	(101)	(30)	(2)
Proceeds from option exercises	6	5	12
Net cash flows provided by (used in) financing activities	(795)	(766)	(978)
Effect of foreign exchange rate changes	(4)	5	(5)
Increase (decrease) in cash and restricted cash	(40)	17	(39)

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Cash and restricted cash at beginning of period (see Note 10)	144	127	166
Cash and restricted cash at end of period (see Note 10)	\$104	\$144	\$127
Supplemental cash flow information			
Cash paid (received) during the period for:			
Income taxes	\$(4)	\$10	\$74
Interest on long-term debt	\$99	\$77	\$95

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements

December 31, 2018, 2017 and 2016

1. Business and Basis of Presentation

Business

Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty or the Company) is a Bermuda-based holding company that provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and international public finance (including infrastructure) and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment (debt service), the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. The Company markets its financial guaranty insurance directly to issuers and underwriters of public finance and structured finance securities as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the United Kingdom (U.K.), and also guarantees obligations issued in other countries and regions, including Australia and Western Europe. The Company also provides other forms of insurance (non-financial guaranty insurance) that are in line with its risk profile and benefit from its underwriting experience.

In the past, the Company sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives, primarily credit default swaps (CDS). Contracts accounted for as credit derivatives are generally structured such that the circumstances giving rise to the Company's obligation to make loss payments are similar to those for financial guaranty insurance contracts. The Company's credit derivative transactions are governed by International Swaps and Derivative Association, Inc. (ISDA) documentation. The Company has not entered into any new CDS in order to sell credit protection in the U.S. since the beginning of 2009, when regulatory guidelines were issued that limited the terms under which such protection could be sold. The capital and margin requirements applicable under the Dodd-Frank Wall Street Reform and Consumer Protection Act also contributed to the Company not entering into such new CDS in the U.S. since 2009.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In management's opinion, all material adjustments necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated variable interest entities (VIEs) are reflected in the periods presented and are of a normal, recurring nature. 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. The 2016 financial information in Note 21, Subsidiary Information, reflects transfers of businesses between entities within the consolidated group that occurred in 2017, consistently for all prior periods presented. The presentation of cash flow amounts related to short-term investments was changed during 2018 to reflect cash flows on a gross, rather than a net, basis.

The consolidated financial statements include the accounts of AGL, its direct and indirect subsidiaries and its consolidated VIEs. Intercompany accounts and transactions between and among all consolidated entities have been eliminated. Certain prior year balances have been reclassified to conform to the current year's presentation.

The Company's principal insurance company subsidiaries are:

- Assured Guaranty Municipal Corp. (AGM), domiciled in New York;
- Municipal Assurance Corp. (MAC), domiciled in New York;
- Assured Guaranty Corp. (AGC), domiciled in Maryland;
- Assured Guaranty (Europe) plc (AGE), organized in the U.K.;
- Assured Guaranty Re Ltd. (AG Re), domiciled in Bermuda; and
- Assured Guaranty Re Overseas Ltd. (AGRO), domiciled in Bermuda.

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The Company's organizational structure includes various holding companies, two of which - Assured Guaranty US Holdings Inc. (AGUS) and Assured Guaranty Municipal Holdings Inc. (AGMH) - have public debt outstanding. See Note 16, Long-Term Debt and Credit Facilities and Note 21, Subsidiary Information.

The Company combined the operations of its European subsidiaries, AGE, Assured Guaranty (UK) plc (AGUK), Assured Guaranty (London) plc (AGLN) and CIFG Europe S.A. (CIFGE) on November 7, 2018. Under the combination, AGUK, AGLN and CIFGE transferred their insurance portfolios to and merged with and into AGE (the Combination).

Significant Accounting Policies

The Company revalues assets, liabilities, revenue and expenses denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates. Gains and losses relating to transactions in foreign denominations in those subsidiaries where the functional currency is the U.S. dollar, are reported in the consolidated statement of operations. Prior to the Combination, two of the Company's European subsidiaries had a functional currency other than the U.S. dollar. Gains and losses relating to translating foreign functional currency financial statements for U.S. GAAP reporting are recorded in other comprehensive income (loss) (OCI).

The chief operating decision maker manages the operations of the Company at a consolidated level. Therefore, all results of operations are reported as one segment.

Other accounting policies are included in the following notes.

Accounting Policies

Business Combinations	Note 2
Expected loss to be paid (insurance, credit derivatives and financial guaranty VIEs contracts)	Note 5
Contracts accounted for as insurance (premium revenue recognition, loss and loss adjustment expense and policy acquisition cost)	Note 6 and 13
Fair value measurement	Note 7
Credit derivatives (at fair value)	Note 8
Variable interest entities (at fair value)	Note 9
Investments and cash	Note 10
Income taxes	Note 12
Leases	Note 15
Long term debt	Note 16
Earnings per share	Note 17
Share repurchases	Note 18
Stock based compensation	Note 19

Adopted Accounting Standards

Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU removed, modified and added additional disclosure requirements on fair value measurements in Topic 820. The Company has adopted this ASU as of December 31, 2018

with the relevant disclosure updates included in Note 7, Fair Value Measurements.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU are intended to make targeted improvements to GAAP by addressing certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Amendments under this ASU apply to the Company's financial guaranty variable interest entities' (FG VIEs')

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liabilities, which the Company has historically elected to measure through the statement of operations under the fair value option, and to certain equity securities in the Company's investment portfolio.

For FG VIEs' liabilities with recourse, the portion of the change in fair value caused by changes in instrument-specific credit risk (ISCR) (i.e., in the case of FG VIEs' liabilities, the Company's own credit risk) must now be separately presented in OCI as opposed to the statement of operations. See Note 9, Variable Interest Entities for additional information.

Amendments under this ASU also apply to equity securities, except those that are accounted for under the equity method of accounting or that resulted in consolidation of the investee by the Company. For equity securities accounted for at fair value, changes in fair value that previously were recorded in OCI are now recorded in other income in the consolidated statements of operations effective January 1, 2018. Equity securities carried at cost as of December 31, 2017, are now recorded at cost less impairment plus or minus the change resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Such changes are recorded in the statement of operations. See Note 10, Investments and Cash for additional information.

On January 1, 2018, the Company adopted this ASU resulting in a cumulative-effect reclassification of a \$32 million loss, net of tax, from retained earnings to accumulated OCI (AOCI).

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory, which removed the prohibition against immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. Under the ASU, the selling (transferring) entity is required to recognize a current income tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The ASU was adopted on January 1, 2018 with no material effect on the consolidated financial statements.

Future Application of Accounting Standards

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Topic 310-20) - Premium Amortization on Purchased Callable Debt Securities. This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. This ASU has no effect on the accounting for purchased callable debt securities held at a discount. It is to be applied using a modified retrospective approach and the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU will have no effect on the Company's consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Subsequent to the issuance of this ASU, Topic 842 was amended by various updates that clarified the impact and implementation of ASU 2016-02. Collectively, these updates will require lessees to present right-of-use assets and lease liabilities on the balance sheet. The Company currently accounts for its lease agreements, where the Company is the lessee, as operating leases and, therefore, does not record these leases on its consolidated balance sheet. Upon adoption on January 1, 2019, the Company will report an increase in both assets and liabilities of approximately \$69 million primarily related to the Company's office space leases.

Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., reinsurance recoverables, premium receivables, held-to-maturity debt securities, and loan commitments). That model requires an entity to estimate lifetime credit losses related to certain financial assets, based on relevant historical information, adjusted for current conditions and reasonable and supportable forecasts that could affect the collectability of the reported amount. The ASU also makes targeted amendments to the current impairment model for available-for-sale debt securities, which includes requiring the recognition of an allowance rather than a direct write-down of the investment. The allowance may be reversed in the event that the credit of an issuer improves. In addition, the ASU eliminates the existing guidance for purchased credit impaired assets and introduces a new model for

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purchased financial assets with credit deterioration, such as the Company's loss mitigation securities. That new model would require the recognition of an initial allowance for credit losses, which is added to the purchase price.

The ASU is effective for fiscal years, and interim period within those fiscal years, beginning after December 15, 2019. For reinsurance recoverables, premiums receivable and debt instruments such as loans and held to maturity securities, entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is adopted. The changes to the impairment model for available-for-sale securities and changes to purchased financial assets with credit deterioration are to be applied prospectively. Early adoption of the amendments is permitted. The Company does not plan to early adopt this ASU. The Company is evaluating the effect that this ASU will have on its financial statements.

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued ASU 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The amendments in this ASU:

- improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows,
- simplify and improve the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts,
- simplify the amortization of deferred acquisition costs, and
- improve the effectiveness of the required disclosures.

This ASU does not impact the Company's financial guaranty insurance contracts, but may impact its accounting for certain non-financial guaranty contracts. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the amendments is permitted. The Company does not expect this ASU to have a material effect on its consolidated financial statements.

2. Assumption of Insured Portfolio and Business Combinations

Consistent with one of its key business strategies of supplementing its book of business through acquisitions of legacy financial guaranty companies or their portfolios, the Company has acquired two financial guaranty companies and completed one reinsurance transaction, since January 1, 2016, as described below.

Reinsurance of Syncora Guarantee Inc.'s Insured Portfolio

On June 1, 2018, the Company closed a reinsurance transaction (SGI Transaction) with Syncora Guarantee Inc. (SGI) under which AGC assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio and AGM reassumed a book of business previously ceded to SGI by AGM. As of June 1, 2018, the net par value of exposures reinsured and commuted totaled approximately \$12 billion (including credit derivative net par of approximately \$1.5 billion). The reinsured portfolio consists predominantly of public finance and infrastructure obligations that meet AGC's underwriting criteria and generated \$330 million of gross written premiums. On June 1, 2018, as consideration, SGI paid \$363 million and assigned to Assured Guaranty financial guaranty future insurance installment premiums of \$45 million, and future credit derivative installments of approximately \$17 million. The assumed portfolio from SGI included below-investment-grade (BIG) contracts which had, as of June 1, 2018, expected losses to be paid of \$131 million (present value basis using risk free rates), which will be expensed over the expected terms of those contracts as unearned premium reserve amortizes. In connection with the SGI Transaction, the Company incurred and expensed \$4 million in fees to professional advisors.

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The effect of the SGI Transaction on the insurance and credit derivative balances as of June 1, 2018 is summarized below:

	Commutation	Assumption	Total
	(in millions)		
Cash	\$20	\$ 343	\$363
Premiums receivable/payable, net of commissions	\$16	\$ 45	\$61
Unearned premium reserve, net	(56)	(319)	(375)
Credit derivative liability, net	—	(68)	(68)
Other	2	(1)	1
Impact to net assets (liabilities), excluding cash	\$(38)	\$(343)	\$(381)
Commutation loss	\$18	\$ —	\$18

Additionally, beginning on June 1, 2018, on behalf of SGI, AGC began providing certain administrative services on the assumed portfolio, including surveillance, risk management, and claims processing.

Business Combinations

Accounting Policies

The acquisitions were accounted for under the acquisition method of accounting which requires that the assets and liabilities acquired be recorded at fair value. The Company exercised significant judgment to determine the fair value of the assets it acquired and liabilities it assumed in each of the acquisitions. The most significant of these determinations related to the valuation of the acquired financial guaranty insurance contracts. On an aggregate basis, the acquired companies' contractual premiums for financial guaranty insurance contracts acquired were less than the premiums a market participant of similar credit quality would demand to acquire those contracts at the date of acquisition (particularly for BIG transactions) resulting in a significant amount of the purchase price being allocated to these contracts. For information on the methodology used to measure the fair value of assets acquired and liabilities assumed in the acquisitions, see Note 7, Fair Value Measurement.

The fair value of the Company's stand-ready obligation on the date of acquisition is recorded in unearned premium reserve. Thereafter, loss reserves and loss and loss adjustment expenses (LAE) are recorded in accordance with the Company's accounting policy for insurance or credit derivatives, depending on each contract's characteristics.

The excess of the fair value of net assets acquired over the consideration transferred was recorded, in each acquisition, as a bargain purchase gain in the statement of operations. In addition, the Company and each of the acquired companies had pre-existing reinsurance relationships, which were effectively settled at fair value on their respective acquisition dates. The gain or loss on settlement of these pre-existing reinsurance relationships represents the net difference between the historical assumed or ceded balances that were recorded by the Company and the fair value of ceded or assumed balances acquired and was also recorded in the statement of operations.

MBIA UK Insurance Limited

AGC completed its acquisition of MBIA UK Insurance Limited (MBIA UK) (the MBIA UK Acquisition), the U.K. operating subsidiary of MBIA Insurance Corporation (MBIA) on January 10, 2017 (the MBIA UK Acquisition Date). As consideration for the outstanding shares of MBIA UK plus \$23 million in cash, AGC exchanged all its holdings of notes issued in the Zohar II 2005-1 transaction (Zohar II Notes), which were insured by MBIA. AGC's Zohar II Notes had total outstanding principal of approximately \$347 million and fair value of \$334 million as of the MBIA UK

Acquisition Date. The MBIA UK Acquisition added approximately \$12 billion of net par insured on January 10, 2017.

MBIA UK was renamed Assured Guaranty (London) Ltd. and on June 1, 2017, was re-registered as a public limited company (plc). In a multi-step business combination completed on November 7, 2018, it ultimately transferred its insurance portfolio to and merged with and into AGE. See Note 1, Business and Basis of Presentation for additional information on the Combination of the Company's European subsidiaries, including AGLN.

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The following table shows the net effect of the MBIA UK Acquisition on January 10, 2017, including the effects of the settlement of pre-existing relationships.

	Fair Value of Net Assets Acquired before Settlement of Pre-existing Relationships (in millions)	Net effect of Settlement of Pre-existing Relationships	Net Effect of MBIA UK Acquisition
Purchase price (1)	\$334	\$ —	\$ 334
Identifiable assets acquired:			
Investments	459	—	459
Cash	72	—	72
Premiums receivable, net of commissions payable	274	(4)	270
Other assets	16	(6)	10
Total assets	821	(10)	811
Liabilities assumed:			
Unearned premium reserves	389	(6)	383
Current tax payable	25	—	25
Other liabilities	4	(5)	(1)
Total liabilities	418	(11)	407
Net assets of MBIA UK	403	1	404
Cash acquired from MBIA Holdings	23	—	23
Deferred tax liability	(36)	—	(36)
Net asset effect of MBIA UK Acquisition	390	1	391
Bargain purchase gain and settlement of pre-existing relationships resulting from MBIA UK Acquisition, after-tax	56	1	57
Deferred tax	—	1	1
Bargain purchase gain and settlement of pre-existing relationships resulting from MBIA UK Acquisition, pre-tax	\$56	\$ 2	\$ 58

The purchase price of \$334 million was allocated as follows: (1) \$329 million for the purchase of net assets of (1)\$385 million, and (2) the settlement of pre-existing relationships between MBIA UK and Assured Guaranty at a fair value of \$5 million

The Company believes the bargain purchase gain resulted from MBIA's strategy to address its insurance obligations with regards to the Zohar II Notes, the issuers of which MBIA did not expect would have sufficient funds to repay such notes in full on the scheduled maturity date of such notes in January 2017.

Revenue and net income (excluding the effects of subsequent tax reform) related to MBIA UK from the MBIA UK Acquisition Date through December 31, 2017 included in the consolidated statement of operations were approximately \$192 million and \$139 million, respectively, including the bargain purchase gain, settlement of

pre-existing relationships, activity during the year and realized gain on the disposition of AGC's Zohar II Notes. For 2017, the Company recognized transaction expenses related to the MBIA UK Acquisition of \$7 million, primarily related to legal and financial advisors fees.

Unaudited Pro Forma Results of Operations

The following unaudited pro forma information presents the combined results of operations of Assured Guaranty and MBIA UK as if the acquisition had been completed on January 1, 2016, as required under GAAP. The pro forma accounts include the estimated historical results of the Company and MBIA UK and pro forma adjustments related to the earning of the unearned premium reserve and expected losses that would be recognized in the statement of operations for each prior period presented, as well as the bargain purchase gain, settlement of pre-existing relationships, realized gain on the disposition of the Zohar II Notes and MBIA UK acquisition related expenses, all net of tax at the applicable statutory rate.

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The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2016, nor is it indicative of the results of operations in future periods. The Company did not include any pro forma combined financial information for 2017 as substantially all of MBIA UK's results of operations for 2017 are included in the year ended December 31, 2017 consolidated statements of operations.

Unaudited Pro Forma Results of Operations

	Year Ended December 31, 2016 (in millions, except per share amounts)
Pro forma revenues	\$ 1,849
Pro forma net income	1,005
Pro forma earnings per share (EPS):	
Basic	7.55
Diluted	7.49

CIFG Holding Inc.

On July 1, 2016, AGC acquired all of the issued and outstanding capital stock of CIFG Holding Inc. (CIFGH, and together with its subsidiaries, CIFG) (the CIFG Acquisition), the parent of financial guaranty insurer CIFG Assurance North America, Inc. (CIFGNA), for \$450.6 million in cash. AGUS previously owned 1.6% of the outstanding shares of CIFGH, for which it received \$7.1 million in consideration from AGC, resulting in a net consolidated purchase price of \$443 million. AGC merged CIFGNA with and into AGC, with AGC as the surviving company, on July 5, 2016. The CIFG Acquisition added \$4.2 billion of net par insured on July 1, 2016.

At the time of the CIFG Acquisition, CIFGNA had a subsidiary financial guaranty company domiciled in France, CIFGE, which had been put into run-off and surrendered its licenses. CIFGNA had reinsured all of CIFGE's outstanding financial guaranty business and also had issued a "second-to-pay policy" pursuant to which CIFGNA guaranteed the full and complete payment of any shortfall in amounts due from CIFGE on its insured portfolio; AGC assumed these obligations as part of the CIFGNA merger with and into AGC. As part of the Combination completed on November 7, 2018, CIFGE transferred its insurance portfolio to and merged with and into AGE. See Note 1, Business and Basis of Presentation for additional information on the Combination.

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The following table shows the net effect of the CIFG Acquisition on July 1, 2016, including the effects of the settlement of pre-existing relationships.

	Fair Value of Net Assets Acquired before Settlement of Pre-existing Relationships (in millions)	Net effect of Settlement of Pre-existing Relationships	Net Effect of CIFG Acquisition
Cash Purchase Price (1)	\$443	\$ —	\$ 443
Identifiable assets acquired:			
Investments	770	—	770
Cash	8	—	8
Premiums receivable, net of commissions payable	18	—	18
Ceded unearned premium reserve	173	(173)	—
Deferred acquisition costs	1	(1)	—
Salvage and subrogation recoverable	23	—	23
Credit derivative assets	1	—	1
Deferred tax asset, net	194	34	228
Other assets	4	—	4
Total assets	1,192	(140)	1,052
Liabilities assumed:			
Unearned premium reserves	306	(10)	296
Loss and loss adjustment expense reserve	1	(66)	(65)
Credit derivative liabilities	68	—	68
Other liabilities	17	—	17
Total liabilities	392	(76)	316
Net asset effect of CIFG Acquisition	800	(64)	736
Bargain purchase gain and settlement of pre-existing relationships resulting from CIFG Acquisition, after-tax	357	(64)	293
Deferred tax	—	(34)	(34)
Bargain purchase gain and settlement of pre-existing relationships resulting from CIFG Acquisition, pre-tax	\$357	\$ (98)	\$ 259

The cash purchase price of \$443 million represents the cash transferred for the acquisition which was allocated as (1) follows: (1) \$270 million for the purchase of net assets of \$627 million, and (2) the settlement of pre-existing relationships between CIFGH and Assured Guaranty at a fair value of \$173 million.

The bargain purchase gain reflects the fair value of CIFG's assets and liabilities, as well as tax attributes that were recorded in deferred taxes related to net operating losses (NOL) (after Internal Revenue Code change in control provisions) and other temporary book-to-tax differences for which CIFG had recorded a full valuation allowance. The

Company believes the bargain purchase gain resulted from the nature of the financial guaranty business and the desire of investors in CIFG to monetize their investments in CIFG.

Revenue and net income related to CIFG from the CIFG Acquisition Date through December 31, 2016 included in the consolidated statement of operations were approximately \$307 million and \$323 million, respectively. For 2016, the Company recognized transaction expenses related to the CIFG Acquisition of \$6 million, primarily consisting of legal and financial advisors fees.

The Company has determined that the presentation of pro forma information is impractical for the CIFG Acquisition as historical financial records are not available on a U.S. GAAP basis.

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3. Ratings

The financial strength ratings (or similar ratings) for AGL's insurance subsidiaries, along with the date of the most recent rating action (or confirmation) by the rating agency, are shown in the table below. Ratings are subject to continuous rating agency review and revision or withdrawal at any time. In addition, the Company periodically assesses the value of each rating assigned to each of its companies, and as a result of such assessment may request that a rating agency add or drop a rating from certain of its companies.

	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC	Kroll Bond Rating Agency	Moody's Investors Service, Inc.	A.M. Best Company, Inc.
AGM	AA (stable) (6/26/18)	AA+ (stable) (12/21/18)	A2 (stable) (5/7/18)	—
AGC	AA (stable) (6/26/18)	AA (stable) (11/30/18)	(1)	—
MAC	AA (stable) (6/26/18)	AA+ (stable) (7/12/18)	—	—
AG Re	AA (stable) (6/26/18)	—	—	—
AGRO	AA (stable) (6/26/18)	—	—	A+ (stable) (7/13/18)
AGE (2)	AA (stable) (6/26/18)	AA+ (stable) (12/21/18)	A2 (stable) (5/7/18)	—

(1) AGC requested that Moody's Investors Service, Inc. (Moody's) withdraw its financial strength ratings of AGC in January 2017, but Moody's denied that request. Moody's continues to rate AGC A3 (stable).

(2) As a result of the Combination, each of S&P Global Ratings, a division of Standard & Poor's Financial Services LLC (S&P), and Moody's withdrew their ratings on AGLN and AGUK.

There can be no assurance that any of the rating agencies will not take negative action on the financial strength ratings (or similar ratings) of AGL's insurance subsidiaries in the future or cease to rate one or more of AGL's insurance subsidiaries, either voluntarily or at the request of that subsidiary.

For a discussion of the effects of rating actions on the Company, see Note 6, Contracts Accounted for as Insurance, and Note 13, Reinsurance.

4. Outstanding Exposure

The Company primarily writes financial guaranty contracts in insurance form. Until 2009, the Company also wrote some of its financial guaranty contracts in credit derivative form, and has acquired or reinsured portfolios both before and after 2009 that include financial guaranty contracts in credit derivative form. Whether written as an insurance contract or as a credit derivative, the Company considers these financial guaranty contracts. The Company also writes a relatively small amount of non-financial guaranty insurance.

The Company seeks to limit its exposure to losses by underwriting obligations that it views as investment grade at inception, although on occasion it may underwrite new issuances that it views as BIG, typically as part of its loss mitigation strategy for existing troubled exposures. The Company also seeks to acquire portfolios of insurance from financial guarantors that are no longer writing new business by acquiring such companies, providing reinsurance on a

portfolio of insurance or reassuming a portfolio of reinsurance it had previously ceded; in such instances, it evaluates the risk characteristics of the target portfolio, which may include some BIG exposures, as a whole in the context of the proposed transaction. The Company diversifies its insured portfolio across asset classes and, in the structured finance portfolio, typically requires subordination or collateral to protect it from loss. Reinsurance may be used in order to reduce net exposure to certain insured transactions.

Public finance obligations insured by the Company primarily consist of general obligation bonds supported by the taxing powers of U.S. state or municipal governmental authorities, as well as tax-supported bonds, revenue bonds and other obligations supported by covenants from state or municipal governmental authorities or other municipal obligors to impose and collect fees and charges for public services or specific infrastructure projects. The Company also includes within public finance obligations those obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including utilities, toll roads, health care facilities and government office buildings. The Company also includes within public finance similar obligations issued by territorial and non-U.S. sovereign and sub-sovereign issuers and governmental authorities.

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Structured finance obligations insured by the Company are generally issued by special purpose entities, including VIEs, and backed by pools of assets having an ascertainable cash flow or market value or other specialized financial obligations. Some of these VIEs are consolidated as described in Note 9, Variable Interest Entities. Unless otherwise specified, the outstanding par and debt service amounts presented in this note include outstanding exposures on VIEs whether or not they are consolidated. The Company also provides non-financial guaranty insurance and reinsurance on transactions without special purpose entities but with similar risk profiles to its structured finance exposures written in financial guaranty form.

Second-to-pay insured par outstanding represents transactions the Company has insured that are insured directly by another monoline financial guaranty insurer and where the Company's obligation to pay under its insurance of such transactions arises only if both the underlying insured obligation and the primary financial guarantor insurer default. The Company underwrites such transactions based on the underlying insured obligation without regard to the primary insurer. The second-to-pay insured par outstanding as of December 31, 2018 and 2017 was \$6.7 billion and \$6.6 billion, respectively. The par on second-to-pay exposure where the ratings of the primary insurer and underlying transaction are both BIG and/or not rated is \$111 million and \$204 million as of December 31, 2018 and December 31, 2017, respectively.

Significant Risk Management Activities

The Portfolio Risk Management Committee, which includes members of senior management and senior risk and surveillance officers, establishes company-wide credit policy for the Company's direct and assumed business. It implements specific underwriting procedures and limits for the Company and allocates underwriting capacity among the Company's subsidiaries. The Portfolio Risk Management Committee is responsible for enterprise risk management for the overall company and focuses on measuring and managing credit, market and liquidity risk for the overall company. All transactions in new asset classes or new jurisdictions must be approved by this committee. The U.S., U.K., AG Re and AGRO risk management committees conduct an in-depth review of the insured portfolios of the relevant subsidiaries, focusing on varying portions of the portfolio at each meeting. They review and may revise internal ratings assigned to the insured transactions and review sector reports, monthly product line surveillance reports and compliance reports.

All transactions in the insured portfolio are assigned internal credit ratings by the relevant underwriting committee at inception, which credit ratings are updated by the relevant risk management committee based on changes in transaction credit quality. As part of the surveillance process, the Company monitors trends and changes in transaction credit quality, and recommends such remedial actions as may be necessary or appropriate. The Company also develops strategies to enforce its contractual rights and remedies and to mitigate its losses, engage in negotiation discussions with transaction participants and, when necessary, manage the Company's litigation proceedings.

Surveillance Categories

The Company segregates its insured portfolio into investment grade and BIG surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review for each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company's internal credit ratings are based on internal assessments of the likelihood of default and loss severity in the event of default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and are generally reflective of an approach similar to that employed by the rating agencies, except that the Company's internal credit ratings focus on future performance rather than lifetime performance.

The Company monitors its insured portfolio and refreshes its internal credit ratings on individual exposures in quarterly, semi-annual or annual cycles based on the Company's view of the exposure's quality, loss potential, volatility

and sector. Ratings on exposures in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter, although the Company may also review a rating in response to developments impacting the credit when a ratings review is not scheduled. For assumed exposures, the Company may use the ceding company's credit ratings of transactions where it is impractical for it to assign its own rating. The Company provides surveillance for exposures assumed from SGI, so for those exposures the Company assigns its own rating.

Exposures identified as BIG are subjected to further review to determine the probability of a loss. See Note 5, Expected Loss to be Paid, for additional information. Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a future loss is expected and whether a claim has been paid. The Company uses a tax-equivalent yield, which reflects long-term trends in interest rates, to calculate the present value of projected payments and recoveries and determine whether a future loss is expected in order to assign the appropriate BIG surveillance category to a transaction. For financial statement measurement purposes, the Company uses risk-free rates, which are determined each quarter, to calculate the expected loss.

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More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. For purposes of determining the appropriate surveillance category, the Company expects “future losses” on a transaction when the Company believes there is at least a 50% chance that, on a present value basis, it will pay more claims on that transaction in the future than it will have reimbursed. The three BIG categories are:

• **BIG Category 1:** Below-investment-grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected.

• **BIG Category 2:** Below-investment-grade transactions for which future losses are expected but for which no claims (other than liquidity claims, which are claims that the Company expects to be reimbursed within one year) have yet been paid.

• **BIG Category 3:** Below-investment-grade transactions for which future losses are expected and on which claims (other than liquidity claims) have been paid.

Unless otherwise noted, ratings disclosed herein on the Company's insured portfolio reflect its internal ratings. The Company classifies those portions of risks benefiting from reimbursement obligations collateralized by eligible assets held in trust in acceptable reimbursement structures as the higher of 'AA' or their current internal rating.

Financial Guaranty Exposure

The Company purchases securities that it has insured, and for which it has expected losses to be paid, in order to mitigate the economic effect of insured losses (loss mitigation securities). The Company excludes amounts attributable to loss mitigation securities from par and debt service outstanding, which amounts are included in the investment portfolio, because it manages such securities as investments and not insurance exposure. As of December 31, 2018 and December 31, 2017, the Company excluded \$1.9 billion and \$2.0 billion, respectively, of net par attributable to loss mitigation securities, and other loss mitigation strategies (which are mostly BIG).

The following table presents the gross and net debt service for financial guaranty contracts.

Financial Guaranty

Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(in millions)			
Public finance	\$361,511	\$ 393,010	\$358,438	\$ 386,092
Structured finance	13,569	15,482	13,148	15,026
Total financial guaranty	\$375,080	\$ 408,492	\$371,586	\$ 401,118

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Financial Guaranty Portfolio by Internal Rating

As of December 31, 2018

Rating Category	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S		Structured Finance Non-U.S		Total	
	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding
	(dollars in millions)									
AAA	\$413	0.2 %	\$2,399	5.4 %	\$1,533	15.4 %	\$273	22.9 %	\$4,618	1.9 %
AA	21,646	11.6	1,711	3.9	3,599	36.2	65	5.4	27,021	11.2
A	105,180	56.4	13,013	29.5	1,016	10.2	206	17.3	119,415	49.4
BBB	52,935	28.4	25,939	58.8	1,164	11.7	550	46.1	80,588	33.3
BIG	6,388	3.4	1,041	2.4	2,632	26.5	99	8.3	10,160	4.2
Total net par outstanding	\$186,562	100.0%	\$44,103	100.0%	\$9,944	100.0 %	\$1,193	100.0 %	\$241,802	100.0%

Financial Guaranty Portfolio by Internal Rating

As of December 31, 2017

Rating Category	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S		Structured Finance Non-U.S		Total	
	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding	Net Par Outstanding	% Outstanding
	(dollars in millions)									
AAA	\$877	0.4 %	\$2,541	5.9 %	\$1,655	14.7 %	\$319	22.5 %	\$5,392	2.1 %
AA	30,016	14.3	205	0.5	3,915	34.9	76	5.4	34,212	12.9
A	118,620	56.7	13,936	32.5	1,630	14.5	210	14.9	134,396	50.7
BBB	52,739	25.2	24,509	57.1	763	6.8	703	49.7	78,714	29.7
BIG	7,140	3.4	1,731	4.0	3,261	29.1	106	7.5	12,238	4.6
Total net par outstanding	\$209,392	100.0%	\$42,922	100.0%	\$11,224	100.0 %	\$1,414	100.0 %	\$264,952	100.0%

The following tables present gross and net par outstanding for the financial guaranty portfolio.

Financial Guaranty Portfolio

Gross Par Outstanding

	As of December 31, 2018	As of December 31, 2017
	(in millions)	
U.S. public finance	\$187,919	\$211,441
Non-U.S. public finance	44,714	44,860
U.S. structured finance	10,352	11,652
Non-U.S. structured finance	1,206	1,433
Total gross par outstanding	\$244,191	\$269,386

Table of ContentsFinancial Guaranty Portfolio
Net Par Outstanding
by Sector

Sector	As of December 31, 2018	As of December 31, 2017
	(in millions)	
Public finance:		
U.S.:		
General obligation	\$78,800	\$ 90,705
Tax backed	40,616	44,350
Municipal utilities	28,462	32,357
Transportation	15,197	17,030
Healthcare	6,750	8,763
Higher education	6,643	8,195
Infrastructure finance	5,489	4,216
Housing revenue	1,435	1,319
Investor-owned utilities	1,001	523
Other public finance	2,169	1,934
Total public finance—U.S.	186,562	209,392
Non-U.S.:		
Regulated utilities	18,325	16,689
Infrastructure finance	17,216	18,234
Pooled infrastructure	1,373	1,561
Other public finance	7,189	6,438
Total public finance—non-U.S.	44,103	42,922
Total public finance	230,665	252,314
Structured finance:		
U.S.:		
Residential Mortgage-Backed Securities (RMBS)	4,270	4,818
Insurance securitizations	1,435	1,449
Consumer receivables	1,255	1,590
Pooled corporate obligations	1,215	1,347
Financial products	1,094	1,418
Other structured finance	675	602
Total structured finance—U.S.	9,944	11,224
Non-U.S.:		
RMBS	576	637
Pooled corporate obligations	126	157
Other structured finance	491	620
Total structured finance—non-U.S.	1,193	1,414
Total structured finance	11,137	12,638
Total net par outstanding	\$241,802	\$ 264,952

In addition to amounts shown in the table above, the Company had outstanding commitments to provide guaranties of \$186 million of gross par as of December 31, 2018. All of these commitments expire prior to the date of the filing. The commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be canceled at the counterparty's request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

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Actual maturities of insured obligations could differ from contractual maturities because borrowers have the right to call or prepay certain obligations. The expected maturities of structured finance obligations are, in general, considerably shorter than the contractual maturities for such obligations.

Financial Guaranty Portfolio
Expected Amortization of
Net Par Outstanding
As of December 31, 2018

	Public Finance	Structured Finance	Total
	(in millions)		
0 to 5 years	\$61,889	\$ 5,739	\$67,628
5 to 10 years	50,296	2,310	52,606
10 to 15 years	44,188	1,364	45,552
15 to 20 years	33,709	1,496	35,205
20 years and above	40,583	228	40,811
Total net par outstanding	\$230,665	\$ 11,137	\$241,802

Financial Guaranty Portfolio
Components of BIG Net Par Outstanding
As of December 31, 2018

	BIG Net Par Outstanding			Total BIG	Net Par
	BIG 1	BIG 2	BIG 3		Outstanding
	(in millions)				
Public finance:					
U.S. public finance	\$1,767	\$ 399	\$ 4,222	\$ 6,388	\$ 186,562
Non-U.S. public finance	796	245	—	1,041	44,103
Public finance	2,563	644	4,222	7,429	230,665
Structured finance:					
U.S. RMBS	368	214	1,805	2,387	4,270
Triple-X life insurance transactions	—	—	85	85	1,184
Trust preferred securities (TruPS)	—	—	—	—	953
Other structured finance	127	79	53	259	4,730
Structured finance	495	293	1,943	2,731	11,137
Total	\$3,058	\$ 937	\$ 6,165	\$ 10,160	\$ 241,802

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Financial Guaranty Portfolio
 Components of BIG Net Par Outstanding
 As of December 31, 2017

	BIG Net Par Outstanding			Total BIG	Net Par Outstanding
	BIG 1	BIG 2	BIG 3		
	(in millions)				
Public finance:					
U.S. public finance	\$2,368	\$663	\$ 4,109	\$ 7,140	\$ 209,392
Non-U.S. public finance	1,455	276	—	1,731	42,922
Public finance	3,823	939	4,109	8,871	252,314
Structured finance:					
U.S. RMBS	374	304	2,083	2,761	4,818
Triple-X life insurance transactions	—	—	85	85	1,199
TruPS	161	—	—	161	1,349
Other structured finance	170	118	72	360	5,272
Structured finance	705	422	2,240	3,367	12,638
Total	\$4,528	\$1,361	\$ 6,349	\$ 12,238	\$ 264,952

Financial Guaranty Portfolio
 BIG Net Par Outstanding
 and Number of Risks
 As of December 31, 2018

Description	Net Par Outstanding			Number of Risks(2)		
	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
	(dollars in millions)					
BIG:						
Category 1	\$2,981	\$ 77	\$3,058	128	6	134
Category 2	932	5	937	39	1	40
Category 3	6,090	75	6,165	145	8	153
Total BIG	\$10,003	\$ 157	\$10,160	312	15	327

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Financial Guaranty Portfolio
 BIG Net Par Outstanding
 and Number of Risks
 As of December 31, 2017

Description	Net Par Outstanding			Number of Risks(2)		
	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
(dollars in millions)						
BIG:						
Category 1	\$4,301	\$ 227	\$4,528	139	7	146
Category 2	1,344	17	1,361	46	3	49
Category 3	6,255	94	6,349	150	9	159
Total BIG	\$11,900	\$ 338	\$12,238	335	19	354

(1) Includes net par outstanding for VIEs.

(2) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments.

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The Company seeks to maintain a diversified portfolio of insured obligations designed to spread its risk across a number of geographic areas.

Financial Guaranty Portfolio

Geographic Distribution of

Net Par Outstanding

As of December 31, 2018

	Number of Risks	Net Par Outstanding	Percent of Total Net Par Outstanding	
(dollars in millions)				
U.S.:				
U.S. Public finance:				
California	1,361	\$ 33,847	14.0	%
Texas	1,154	16,915	7.0	
Pennsylvania	704	16,866	7.0	
New York	829	15,077	6.2	
Illinois	642	14,914	6.2	
New Jersey	370	10,998	4.5	
Florida	273	8,518	3.5	
Michigan	349	5,635	2.3	
Puerto Rico	18	4,767	2.0	
Alabama	289	4,230	1.7	
Other	2,726	54,795	22.7	
Total U.S. public finance	8,715	186,562	77.1	
U.S. Structured finance (multiple states)	485	9,944	4.1	
Total U.S.	9,200	196,506	81.2	
Non-U.S.:				
United Kingdom	130	31,128	12.9	
France	10	3,189	1.3	
Canada	9	2,659	1.1	
Australia	11	2,103	0.9	
Italy	8	1,176	0.5	
Other	45	5,041	2.1	
Total non-U.S.	213	45,296	18.8	
Total	9,413	\$ 241,802	100.0	%

Exposure to Puerto Rico

The Company had insured exposure to general obligation bonds of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and various obligations of its related authorities and public corporations aggregating \$4.8 billion net par as of December 31, 2018, all of which was rated BIG. Puerto Rico has experienced significant general fund budget deficits and a challenging economic environment since at least the financial crisis. Beginning on January 1, 2016, a number of Puerto Rico exposures have defaulted on bond payments, and the Company has now paid claims on all of its Puerto Rico exposures except for Puerto Rico Aqueduct and Sewer Authority (PRASA), Municipal Finance Agency (MFA) and University of Puerto Rico (U of PR).

On November 30, 2015 and December 8, 2015, the former governor of Puerto Rico (Former Governor) issued executive orders (Clawback Orders) directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to "claw back" certain taxes pledged to secure the payment of bonds issued by the Puerto Rico Highways and Transportation Authority (PRHTA), Puerto Rico Infrastructure Financing Authority (PRIFA), and Puerto Rico Convention Center District

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Authority (PRCCDA). The Puerto Rico exposures insured by the Company subject to clawback are shown in the table "Puerto Rico Net Par Outstanding."

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law by the President of the United States. PROMESA established a seven-member financial oversight board (Oversight Board) with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. On February 15, 2019, the United States Court of Appeals for the First Circuit (First Circuit) held that members of the Oversight Board were not appointed in compliance with the appointments clause of the U.S. Constitution, but declined to dismiss the Title III petitions previously filed by the Oversight Board and delayed the effectiveness of its ruling for 90 days so as to allow the President of the United States and the U.S. Senate to validate the currently defective appointments or reconstitute the Oversight Board in accordance with the appointments clause. See "Puerto Rico Recovery Litigation" below.

PROMESA provides a legal framework under which the debt of the Commonwealth and its related authorities and public corporations may be voluntarily restructured, and grants the Oversight Board the sole authority to file restructuring petitions in a federal court to restructure the debt of the Commonwealth and its related authorities and public corporations if voluntary negotiations fail, provided that any such restructuring must be in accordance with an Oversight Board approved fiscal plan that respects the liens and priorities provided under Puerto Rico law. Title III of PROMESA provides for a process analogous to a voluntary bankruptcy process under chapter 9 of the United States Bankruptcy Code (Bankruptcy Code).

Judge Laura Taylor Swain of the Southern District of New York was selected by Chief Justice John Roberts of the United States Supreme Court to preside over any legal proceedings under PROMESA.

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane on the Saffir-Simpson scale, causing loss of life and widespread devastation in the Commonwealth. Damage to the Commonwealth's infrastructure, including the power grid, water system and transportation system, was extensive, and rebuilding and economic recovery are expected to take years.

The Oversight Board has certified a number of fiscal plans (in some instances certifying revisions of previously certified plans) for the Commonwealth, PRHTA, Puerto Rico Electric Power Authority (PREPA) and PRASA. The Company does not believe the certified fiscal plans for the Commonwealth, PRHTA, PREPA or PRASA comply with certain mandatory requirements of PROMESA.

The Company believes that a number of the actions taken by the Commonwealth, the Oversight Board and others with respect to obligations the Company insures are illegal or unconstitutional or both, and has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to these matters. See "Puerto Rico Recovery Litigation" below.

The Company also participates in mediation and negotiations relating to its Puerto Rico exposure.

The final form and timing of responses to Puerto Rico's financial distress and the devastation of Hurricane Maria eventually taken by the federal government or implemented under the auspices of PROMESA and the Oversight Board or otherwise, and the final impact, after resolution of legal challenges, of any such responses on obligations insured by the Company, are uncertain.

The Company groups its Puerto Rico exposure into three categories:

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Constitutionally Guaranteed. The Company includes in this category public debt benefiting from Article VI of the Constitution of the Commonwealth, which expressly provides that interest and principal payments on the public debt are to be paid before other disbursements are made.

Public Corporations – Certain Revenues Potentially Subject to Clawback. The Company includes in this category the debt of public corporations for which applicable law permits the Commonwealth to claw back, subject to certain conditions and for the payment of public debt, at least a portion of the revenues supporting the bonds the Company insures. As a constitutional condition to clawback, available Commonwealth revenues for any fiscal year must be insufficient to pay Commonwealth debt service before the payment of any appropriations for that year. The Company believes that this condition has not been satisfied to date, and accordingly that the Commonwealth has not to date been entitled to claw back revenues supporting debt insured by the Company.

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Other Public Corporations. The Company includes in this category the debt of public corporations that are supported by revenues it does not believe are subject to clawback.

Constitutionally Guaranteed

General Obligation. As of December 31, 2018, the Company had \$1,340 million insured net par outstanding of the general obligations of Puerto Rico, which are supported by the good faith, credit and taxing power of the Commonwealth. Despite the requirements of Article VI of its Constitution, the Commonwealth defaulted on the debt service payment due on July 1, 2016, and the Company has been making claim payments on these bonds since that date. The Oversight Board has filed a petition under Title III of PROMESA with respect to the Commonwealth.

On October 23, 2018, the Oversight Board certified a revised fiscal plan for the Commonwealth. The revised certified Commonwealth fiscal plan indicates an expected primary budget surplus, if fiscal plan reforms are enacted, of \$17.0 billion that would be available for debt service over the six-year forecast period ending 2023. The Company believes the available surplus set forth in the Oversight Board's revised certified fiscal plan (which assumes certain fiscal reforms are implemented by the Commonwealth) should be sufficient to cover contractual debt service of Commonwealth general obligation issuances and of authorities and public corporations directly implicated by the Commonwealth's general fund during the forecast period. However, the revised certified Commonwealth fiscal plan indicates a net primary budget deficit for the period from 2023 through 2058, and there can be no assurance that the fiscal reforms will be enacted or, if they are, that the forecasted primary budget surplus will occur or, if it does, that such funds will be used to cover contractual debt service.

On January 14, 2019, the Oversight Board and certain other parties filed an objection in the United States District Court for the District of Puerto Rico (Federal District for Puerto Rico) seeking an order, among other things, disallowing claims based on the Commonwealth's general obligation bonds issued on or after March 2012, contending that these bonds were issued in violation of the Commonwealth's debt service limits. As of December 31, 2018, \$369 million of the Company's insured net par outstanding of the general obligation bonds of Puerto Rico were issued on or after March 2012.

Puerto Rico Public Buildings Authority (PBA). As of December 31, 2018, the Company had \$142 million insured net par outstanding of PBA bonds, which are supported by a pledge of the rents due under leases of government facilities to departments, agencies, instrumentalities and municipalities of the Commonwealth, and that benefit from a Commonwealth guaranty supported by a pledge of the Commonwealth's good faith, credit and taxing power. Despite the requirements of Article VI of its Constitution, the PBA defaulted on most of the debt service payment due on July 1, 2016, and the Company has been making claim payments on these bonds since then.

On December 21, 2018, the Oversight Board and certain other parties filed an adversary complaint in the Federal Court for Puerto Rico seeking a declaratory judgment that, among other things, the leases to public entities entered into by the PBA are not "true leases" for purposes of Section 365(d)(3) of the Bankruptcy Code and so the Commonwealth has no obligation to make payment to the PBA under such leases. On January 28, 2019, AGM and AGC moved to intervene in that action.

Public Corporations - Certain Revenues Potentially Subject to Clawback

PRHTA. As of December 31, 2018, the Company had \$844 million insured net par outstanding of PRHTA (transportation revenue) bonds and \$475 million insured net par outstanding of PRHTA (highways revenue) bonds. The transportation revenue bonds are secured by a subordinate gross lien on gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls, plus a first lien on up to \$120 million annually of taxes on crude oil, unfinished oil and derivative products. The highways revenue bonds are secured by a gross lien on gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls. The non-toll revenues consisting of excise taxes

and fees collected by the Commonwealth on behalf of PRHTA and its bondholders that are statutorily allocated to PRHTA and its bondholders are potentially subject to clawback. Despite the presence of funds in relevant debt service reserve accounts that the Company believes should have been employed to fund debt service, PRHTA defaulted on the full July 1, 2017 insured debt service payment, and the Company has been making claim payments on these bonds since that date. The Oversight Board has filed a petition under Title III of PROMESA with respect to PRHTA.

On June 29, 2018, the Oversight Board certified a revised fiscal plan for PRHTA. The revised certified PRHTA fiscal plan projects very limited capacity to pay debt service over the six-year forecast period.

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PRCCDA. As of December 31, 2018, the Company had \$152 million insured net par outstanding of PRCCDA bonds, which are secured by certain hotel tax revenues. These revenues are sensitive to the level of economic activity in the area and are potentially subject to clawback. There were sufficient funds in the PRCCDA bond accounts to make only partial payments on the July 1, 2017 PRCCDA bond payments guaranteed by the Company, and the Company has been making claim payments on these bonds since that date.

PRIFA. As of December 31, 2018, the Company had \$16 million insured net par outstanding of PRIFA bonds, which are secured primarily by the return to Puerto Rico of federal excise taxes paid on rum. These revenues are potentially subject to the clawback. The Company has been making claim payments on the PRIFA bonds since January 2016.

Other Public Corporations

PREPA. As of December 31, 2018, the Company had \$848 million insured net par outstanding of PREPA obligations, which are secured by a lien on the revenues of the electric system. The Company has been making claim payments on these bonds since July 1, 2017.

On December 24, 2015, AGM and AGC entered into a Restructuring Support Agreement (PREPA RSA) with PREPA, an ad hoc group of uninsured bondholders and a group of fuel-line lenders that, subject to certain conditions, would have resulted in, among other things, modernization of the utility and a restructuring of current debt.

The Oversight Board did not certify the PREPA RSA under Title VI of PROMESA as the Company believes was required by PROMESA, but rather, on July 2, 2017, commenced proceedings for PREPA under Title III of PROMESA.

On July 30, 2018, the Oversight Board and the Governor of Puerto Rico announced that they had reached a tentative agreement with a certain group of PREPA bondholders regarding approximately \$3 billion, or approximately one-third, of PREPA's outstanding debt. Bondholders would be able to exchange their debt for new securitization debt maturing in 40 years at 67% of par, plus growth bonds tied to the recovery of Puerto Rico at 10% of par. The Company and certain other creditors of PREPA have not agreed to the terms of that tentative agreement.

On August 1, 2018, the Oversight Board certified a revised fiscal plan for PREPA.

PRASA. As of December 31, 2018, the Company had \$373 million of insured net par outstanding of PRASA bonds, which are secured by a lien on the gross revenues of the water and sewer system. On September 15, 2015, PRASA entered into a settlement with the U.S. Department of Justice and the U.S. Environmental Protection Agency that requires it to spend \$1.6 billion to upgrade and improve its sewer system island-wide. The PRASA bond accounts contained sufficient funds to make the PRASA bond payments due through the date of this filing that were guaranteed by the Company, and those payments were made in full.

On August 1, 2018, the Oversight Board certified a revised fiscal plan for PRASA.

MFA. As of December 31, 2018, the Company had \$303 million net par outstanding of bonds issued by MFA secured by a lien on local property tax revenues. The MFA bond accounts contained sufficient funds to make the MFA bond payments due through the date of this filing that were guaranteed by the Company, and those payments were made in full.

Puerto Rico Sales Tax Financing Corporation (COFINA). As of December 31, 2018, the Company had \$273 million insured net par outstanding of subordinate COFINA bonds, which were secured primarily by a second lien on certain sales and use taxes. On February 12, 2019, pursuant to a plan of adjustment approved by the PROMESA Title III

Court on February 4, 2019 (COFINA Plan of Adjustment), the Company paid off its insured COFINA bonds in full. Pursuant to the COFINA Plan of Adjustment, the Company received \$152 million in initial par of closed lien senior bonds of COFINA validated by the PROMESA Title III Court (COFINA Exchange Senior Bonds), along with cash. The total par recovery (cash and COFINA Exchange Senior Bonds) represents 60% of the Company's official Title III claim, which relates to amounts owed as of the date COFINA entered Title III proceedings. The Company may retain, sell, or insure and then sell, all or any portion of its \$152 million of COFINA Exchange Senior Bonds. The COFINA Exchange Senior Bonds consist of both current interest bonds (\$115 million) and capital appreciation bonds (\$37 million).

The COFINA Plan of Adjustment was predicated on the settlement reached on June 7, 2018, among the court-appointed agents for COFINA and the Commonwealth to resolve a dispute between COFINA and the Commonwealth regarding ownership of the pledged sales tax base amount (PSTBA) of the 5.5% Sales and Use Taxes (SUT). The June 7, 2018 agreement in principle was memorialized in a Settlement Agreement dated October 19, 2018, which was approved by the

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PROMESA Title III Court on February 4, 2019. That settlement requires, among other things, that future challenges to it be barred by the court or made illegal, and provides that, beginning July 1, 2018, the SUT would be paid first to COFINA until it has received 53.65% of the PSTBA and that the remaining 46.35% of the PSTBA would be paid to the Commonwealth thereafter. The settlement does not impact SUT in excess of the PSTBA, which is paid to the Commonwealth. The Company is reserving its contractual voting rights as deemed sole bondholder of certain Commonwealth general obligation bonds and its related subrogee rights with respect to both the SUT revenues allocated to the Commonwealth and other available resources of the Commonwealth.

U of PR. As of December 31, 2018, the Company had \$1 million insured net par outstanding of U of PR bonds, which are general obligations of the university and are secured by a subordinate lien on the proceeds, profits and other income of the university, subject to a senior pledge and lien for the benefit of outstanding university system revenue bonds. As of the date of this filing, all debt service payments on U of PR bonds insured by the Company have been made.

Puerto Rico Recovery Litigation

The Company believes that a number of the actions taken by the Commonwealth, the Oversight Board and others with respect to obligations it insures are illegal or unconstitutional or both, and has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to these matters.

On January 7, 2016, AGM, AGC and Ambac Assurance Corporation commenced an action for declaratory judgment and injunctive relief in the Federal District Court for Puerto Rico to invalidate the executive orders issued by the Former Governor on November 30, 2015 and December 8, 2015 directing that the Secretary of the Treasury of the Commonwealth of Puerto Rico and the Puerto Rico Tourism Company claw back certain taxes and revenues pledged to secure the payment of bonds issued by the PRHTA, the PRCCDA and the PRIFA. The Commonwealth defendants filed a motion to dismiss the action for lack of subject matter jurisdiction, which the court denied on October 4, 2016. On October 14, 2016, the Commonwealth defendants filed a notice of PROMESA automatic stay. While the PROMESA automatic stay expired on May 1, 2017, on May 17, 2017, the court stayed the action under Title III of PROMESA.

On May 16, 2017, The Bank of New York Mellon, as trustee for the bonds issued by COFINA, filed an adversary complaint for interpleader and declaratory relief with the Federal District Court for Puerto Rico to resolve competing and conflicting demands made by various groups of COFINA bondholders, insurers of certain COFINA Bonds and COFINA, regarding funds held by the trustee for certain COFINA bond debt service payments scheduled to occur on and after June 1, 2017. On May 19, 2017, an order to show cause was entered permitting AGM to intervene in this matter. On February 4, 2019, the Federal District Court for Puerto Rico approved the COFINA Plan of Adjustment described above, and the plan became effective on February 12, 2019. As a result, the interpleader action has been dismissed.

On June 3, 2017, AGC and AGM filed an adversary complaint in the Federal District Court for Puerto Rico seeking (i) a judgment declaring that the application of pledged special revenues to the payment of the PRHTA bonds is not subject to the PROMESA Title III automatic stay and that the Commonwealth has violated the special revenue protections provided to the PRHTA bonds under the Bankruptcy Code; (ii) an injunction enjoining the Commonwealth from taking or causing to be taken any action that would further violate the special revenue protections provided to the PRHTA bonds under the Bankruptcy Code; and (iii) an injunction ordering the Commonwealth to remit the pledged special revenues securing the PRHTA bonds in accordance with the terms of the special revenue provisions set forth in the Bankruptcy Code. On January 30, 2018, the court rendered an opinion dismissing the complaint and holding, among other things, that (x) even though the special revenue provisions of the Bankruptcy Code protect a lien on pledged special revenues, those provisions do not mandate the turnover of pledged

special revenues to the payment of bonds and (y) actions to enforce liens on pledged special revenues remain stayed. AGC and AGM are appealing the district court's decision to the United States Court of Appeals for the First Circuit (First Circuit).

On June 26, 2017, AGM and AGC filed a complaint in the Federal District Court for Puerto Rico seeking (i) a declaratory judgment that the PREPA RSA is a "Preexisting Voluntary Agreement" under Section 104 of PROMESA and the Oversight Board's failure to certify the PREPA RSA is an unlawful application of Section 601 of PROMESA; (ii) an injunction enjoining the Oversight Board from unlawfully applying Section 601 of PROMESA and ordering it to certify the PREPA RSA; and (iii) a writ of mandamus requiring the Oversight Board to comply with its duties under PROMESA and certify the PREPA RSA. On July 21, 2017, in light of its PREPA Title III petition on July 2, 2017, the Oversight Board filed a notice of stay under PROMESA.

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On July 18, 2017, AGM and AGC filed in the Federal District Court for Puerto Rico a motion for relief from the automatic stay in the PREPA Title III bankruptcy proceeding and a form of complaint seeking the appointment of a receiver for PREPA. The court denied the motion on September 14, 2017, but on August 8, 2018, the First Circuit vacated and remanded the court's decision. On October 3, 2018, AGM and AGC, together with other bond insurers, filed a motion with the court to lift the automatic stay to commence an action against PREPA for the appointment of a receiver.

On May 23, 2018, AGM and AGC filed an adversary complaint in the Federal District Court for Puerto Rico seeking a judgment declaring that (i) the Oversight Board lacked authority to develop or approve the new fiscal plan for Puerto Rico which it certified on April 19, 2018 (Revised Fiscal Plan); (ii) the Revised Fiscal Plan and the Fiscal Plan Compliance Law (Compliance Law) enacted by the Commonwealth to implement the original Commonwealth Fiscal Plan violate various sections of PROMESA; (iii) the Revised Fiscal Plan, the Compliance Law and various moratorium laws and executive orders enacted by the Commonwealth to prevent the payment of debt service (a) are unconstitutional and void because they violate the Contracts, Takings and Due Process Clauses of the U.S. Constitution and (b) are preempted by various sections of PROMESA; and (iv) no Title III plan of adjustment based on the Revised Fiscal Plan can be confirmed under PROMESA. On August 13, 2018, the court-appointed magistrate judge granted the Commonwealth's and the Oversight Board's motion to stay this adversary proceeding pending a decision by the First Circuit in an appeal of an unrelated adversary proceeding decision by Ambac Assurance Corporation, which may resolve certain similar issues.

On July 23, 2018, AGC and AGM filed an adversary complaint in the Federal District Court for Puerto Rico seeking a judgment (i) declaring the members of the Oversight Board are officers of the U.S. whose appointments were unlawful under the Appointments Clause of the U.S. Constitution; (ii) declaring void ab initio the unlawful actions taken by the Oversight Board to date, including (x) development of the Commonwealth's Fiscal Plan, (y) development of PRHTA's Fiscal Plan, and (z) filing of the Title III cases on behalf of the Commonwealth and PRHTA; and (iii) enjoining the Oversight Board from taking any further action until the Oversight Board members have been lawfully appointed in conformity with the Appointments Clause of the U.S. Constitution. The Title III court dismissed a similar lawsuit filed by another party in the Commonwealth's Title III case in July 2018. On August 3, 2018, a stipulated judgment was entered against AGM and AGC at their request based upon the court's July decision in the other Appointments Clause lawsuit and, on the same date, AGM and AGC appealed the stipulated judgment to the First Circuit. On August 15, 2018, the court consolidated, for purposes of briefing and oral argument, AGM and AGC's appeal with the other Appointments Clause lawsuit. The First Circuit consolidated AGM's and AGC's appeal with a third Appointments Clause lawsuit on September 7, 2018 and held a hearing on December 3, 2018. On February 15, 2019, the First Circuit issued its ruling on the appeal and held that members of the Oversight Board were not appointed in compliance with the Appointments Clause of the U.S. Constitution but declined to dismiss the Title III petitions citing the (i) de facto officer doctrine and (ii) negative consequences to the many innocent third parties who relied on the Oversight Board's actions to date, as well as the further delay which would result from a dismissal of the Title III petitions. The case was remanded back to the Federal District Court for Puerto Rico for the appellants' requested declaratory relief that the appointment of the board members of the Oversight Board is unconstitutional. The First Circuit delayed the effectiveness of its ruling for 90 days so as to allow the President and the Senate to validate the currently defective appointments or reconstitute the Oversight Board in accordance with the Appointments Clause. On February 28, 2019, the Oversight Board announced that it will ask the U.S. Supreme Court to review the First Circuit's February 15, 2019 decision and will also request a stay of the First Circuit's ruling, pending the U.S. Supreme Court's consideration of the Oversight Board's petition for a writ of certiorari.

Puerto Rico Par and Debt Service Schedules

All Puerto Rico exposures are internally rated BIG. The following tables show the Company's insured exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations.

Puerto Rico

Gross Par and Gross Debt Service Outstanding

	Gross Par Outstanding		Gross Debt Service Outstanding	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(in millions)			
Exposure to Puerto Rico	\$4,971	\$ 5,186	\$8,035	\$ 8,514

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Puerto Rico

Net Par Outstanding

	As of December 2018	As of December 31, 2017
	(in millions)	
Commonwealth Constitutionally Guaranteed		
Commonwealth of Puerto Rico - General Obligation Bonds (1)	\$1,340	\$ 1,419
PBA	142	141
Public Corporations - Certain Revenues Potentially Subject to Clawback		
PRHTA (Transportation revenue) (1)	844	882
PRHTA (Highways revenue) (1)	475	495
PRCCDA	152	152
PRIFA	16	18
Other Public Corporations		
PREPA (1)	848	853
PRASA	373	373
MFA	303	360
COFINA (2)	273	272
U of PR	1	1
Total net exposure to Puerto Rico	\$4,767	\$ 4,966

(1) As of the date of this filing, the Oversight Board has certified a filing under Title III of PROMESA for these exposures.

(2) As of the date of this filing, a plan of adjustment under PROMESA is effective for this credit.

The following table shows the scheduled amortization of the insured general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations. The Company guarantees payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. In the event that obligors default on their obligations, the Company would only be required to pay the shortfall between the principal and interest due in any given period and the amount paid by the obligors.

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Amortization Schedule of Puerto Rico Net Par Outstanding
and Net Debt Service Outstanding
As of December 31, 2018

	Scheduled Net Par Amortization (in millions)	Scheduled Net Debt Service Amortization (in millions)
2019 (January 1 - March 31)	\$—	\$ 117
2019 (April 1 - June 30)	—	3
2019 (July 1 - September 30)	224	341
2019 (October 1 - December 31)	—	3
Subtotal 2019	224	464
2020	285	516
2021	147	364
2022	137	345
2023	206	408
2024-2028	1,205	2,043
2029-2033	904	1,487
2034-2038	968	1,260
2039-2043	430	556
2044-2047	261	300
Total	\$4,767	\$ 7,743

Exposure to the U.S. Virgin Islands

As of December 31, 2018, the Company had \$496 million insured net par outstanding to the U.S. Virgin Islands and its related authorities (USVI), of which it rated \$222 million BIG. The \$274 million USVI net par the Company rated investment grade primarily consisted of bonds secured by a lien on matching fund revenues related to excise taxes on products produced in the USVI and exported to the U.S., primarily rum. The \$222 million BIG USVI net par consisted of (a) Public Finance Authority bonds secured by a gross receipts tax and the general obligation, full faith and credit pledge of the USVI and (b) bonds of the Virgin Islands Water and Power Authority secured by a net revenue pledge of the electric system.

Hurricane Irma caused significant damage in St. John and St. Thomas, while Hurricane Maria made landfall on St. Croix as a Category 4 hurricane on the Saffir-Simpson scale, causing loss of life and substantial damage to St. Croix's businesses and infrastructure, including the power grid. The USVI is benefiting from the federal response to the 2017 hurricanes and has made its debt service payments to date.

Non-Financial Guaranty Exposure

The Company also provides non-financial guaranty insurance and reinsurance on transactions with similar risk profiles to its structured finance exposures written in financial guaranty form. All non-financial guaranty exposures shown in the table below are rated investment grade internally.

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Non-Financial Guaranty Exposure

	Gross Exposure		Net Exposure	
	As of December 31, 2018	As of December 31, 2017	As of December 31, 2018	As of December 31, 2017
	(in millions)			
Life insurance capital relief transactions (1)	\$880	\$ 773	\$763	\$ 675
Aircraft residual value insurance policies	340	201	218	140

(1) The life insurance capital relief transactions net exposure is expected to increase to approximately \$1.0 billion prior to September 30, 2036.

5. Expected Loss to be Paid

Management compiles and analyzes loss information for all exposures on a consistent basis, in order to effectively evaluate and manage the economics and liquidity of the entire insured portfolio. The Company monitors and assigns ratings and calculates expected losses in the same manner for all its exposures regardless of form or differing accounting models. This note provides information regarding expected claim payments to be made under all contracts in the insured portfolio.

Expected loss to be paid is important from a liquidity perspective in that it represents the present value of amounts that the Company expects to pay or recover in future periods for all contracts. The expected loss to be paid is equal to the present value of expected future cash outflows for claim and LAE payments, net of inflows for expected salvage and subrogation (e.g., future payments by obligors pursuant to restructuring agreements, settlements or litigation judgments, excess spread on underlying collateral, and other estimated recoveries, including those from restructuring bonds and for breaches of representations and warranties (R&W)), using current risk-free rates. Expected cash outflows and inflows are probability weighted cash flows that reflect management's assumptions about the likelihood of all possible outcomes based on all information available to it. Those assumptions consider the relevant facts and circumstances and are consistent with the information tracked and monitored through the Company's risk-management activities. The Company updates the discount rates each quarter and reflects the effect of such changes in economic loss development. Net expected loss to be paid is defined as expected loss to be paid, net of amounts ceded to reinsurers.

In circumstances where the Company has purchased its own insured obligations that have expected losses, and in certain cases issuers of insured obligations elected or the Company and an issuer mutually agreed as part of a negotiation to deliver the underlying collateral or insured obligation to the Company, expected loss to be paid is reduced by the proportionate share of the insured obligation that is held in the investment portfolio. The difference between the purchase price of the obligation and the fair value excluding the value of the Company's insurance is treated as a paid loss. Assets that are purchased by the Company are recorded in the investment portfolio, at fair value excluding the value of the Company's insurance. See Note 10, Investments and Cash and Note 7, Fair Value Measurement.

Economic loss development represents the change in net expected loss to be paid attributable to the effects of changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company's control rights. The three models are: (1) insurance as described in "Financial Guaranty Insurance Losses" in Note 6, Contracts Accounted for as Insurance, (2) derivative as described in Note 7, Fair Value Measurement and Note 8, Contracts Accounted for as Credit Derivatives, and (3) VIE consolidation as described in Note 9, Variable Interest Entities. The Company has paid and expects to pay future losses (net of recoveries) on policies which fall under each of the three accounting models.

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Loss Estimation Process

The Company's loss reserve committees estimate expected loss to be paid for all contracts by reviewing analyses that consider various scenarios with corresponding probabilities assigned to them. Depending upon the nature of the risk, the Company's view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments, sector-driven loss severity assumptions and/or judgmental assessments. In the case of its assumed business, the Company may conduct its own analysis as just described or, depending on the Company's view of the potential size of any loss and the information available to the Company, the Company may use loss estimates provided by ceding insurers. The Company monitors the performance of its transactions with expected losses and each quarter the Company's loss reserve committees review and refresh their loss projection assumptions, scenarios and the probabilities they assign to those scenarios based on actual developments during the quarter and their view of future performance.

The financial guaranties issued by the Company insure the credit performance of the guaranteed obligations over an extended period of time, in some cases over 30 years, and in most circumstances the Company has no right to cancel such financial guaranties. As a result, the Company's estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability over the life of most contracts.

The determination of expected loss to be paid is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations and other factors that affect credit performance. These estimates, assumptions and judgments, and the factors on which they are based, may change materially over a reporting period, and as a result the Company's loss estimates may change materially over that same period.

Changes over a reporting period in the Company's loss estimates for municipal obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, generally will be influenced by factors impacting their revenue levels, such as changes in demand; changing demographics; and other economic factors, especially if the obligations do not benefit from financial support from other tax revenues or governmental authorities. Changes over a reporting period in the Company's loss estimates for its tax-supported public finance transactions generally will be influenced by factors impacting the public issuer's ability and willingness to pay, such as changes in the economy and population of the relevant area; changes in the issuer's ability or willingness to raise taxes, decrease spending or receive federal assistance; new legislation; rating agency actions that affect the issuer's ability to refinance maturing obligations or issue new debt at a reasonable cost; changes in the priority or amount of pensions and other obligations owed to workers; developments in restructuring or settlement negotiations; and other political and economic factors. Changes in loss estimates may also be affected by the Company's loss mitigation efforts.

Changes in the Company's loss estimates for structured finance transactions generally will be influenced by factors impacting the performance of the assets supporting those transactions. For example, changes over a reporting period in the Company's loss estimates for its RMBS transactions may be influenced by factors such as the level and timing of loan defaults experienced; changes in housing prices; results from the Company's loss mitigation activities; and other variables.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of losses may be subject to considerable volatility and may not reflect the Company's ultimate claims paid.

In some instances, the terms of the Company's policy gives it the option to pay principal losses that have been recognized in the transaction but which it is not yet required to pay, thereby reducing the amount of guaranteed interest due in the future. The Company has sometimes exercised this option, which uses cash but reduces projected future losses.

The following tables present a roll forward of net expected loss to be paid for all contracts. The Company used risk-free rates for U.S. dollar denominated obligations that ranged from 0.00% to 3.06% with a weighted average of 2.74% as of December 31, 2018 and from 0.00% to 2.78% with a weighted average of 2.38% as of December 31, 2017. Expected losses to be paid for transactions denominated in currencies other than the U.S. dollar represented approximately 2.7% and 3.7% of the total as of December 31, 2018 and December 31, 2017, respectively.

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Net Expected Loss to be Paid
Roll Forward

	Year Ended December 31,	
	2018	2017
	(in millions)	
Net expected loss to be paid, beginning of period	\$ 1,303	\$ 1,198
Net expected loss to be paid on the SGI portfolio as of June 1, 2018 (see Note 2)	131	—
Net expected loss to be paid on the MBIA UK portfolio as of January 10, 2017	—	21
Economic loss development (benefit) due to:		
Accretion of discount	36	33
Changes in discount rates	(17)	25
Changes in timing and assumptions	(24)	255
Total economic loss development (benefit)	(5)	313
Net (paid) recovered losses	(246)	(229)
Net expected loss to be paid, end of period	\$ 1,183	\$ 1,303

Net Expected Loss to be Paid

Roll Forward by Sector

Year Ended December 31, 2018

	Net Expected Loss to be Paid (Recovered) as of December 31, 2017 (2) (in millions)	Net Expected Loss to be Paid on SGI portfolio as of June 1, 2018	Economic Loss Development / (Benefit)	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2018 (2)
Public finance:					
U.S. public finance	\$ 1,157	\$ —	\$ 70	\$ (395)	\$ 832
Non-U.S. public finance	46	1	(14)	(1)	32
Public finance	1,203	1	56	(396)	864
Structured finance:					
U.S. RMBS	73	130	(69)	159	293
Other structured finance	27	—	8	(9)	26
Structured finance	100	130	(61)	150	319
Total	\$ 1,303	\$ 131	\$ (5)	\$ (246)	\$ 1,183

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Net Expected Loss to be Paid
Roll Forward by Sector
Year Ended December 31, 2017

	Net Expected Loss to be Paid (Recovered) as of December 31, 2016		Net Expected Loss to be Paid (Recovered) on MBIA Policies as of January 10, 2017		Economic Loss Development / (Benefit)	Net Expected Loss (Paid) Recovered / Losses (1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2017 (2)
	(in millions)						
Public finance:							
U.S. public finance	\$871	\$ —	\$ 554		\$ (268)	\$ 1,157	
Non-U.S. public finance	33	13	(5)		5	46	
Public finance	904	13	549		(263)	1,203	
Structured finance:							
U.S. RMBS	206	—	(181)		48	73	
Other structured finance	88	8	(55)		(14)	27	
Structured finance	294	8	(236)		34	100	
Total	\$1,198	\$ 21	\$ 313		\$ (229)	\$ 1,303	

(1) Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are typically settled 45 days after the end of the reporting period. Such amounts are recorded in reinsurance recoverable on paid losses included in other assets. The Company paid \$28 million and \$24 million in LAE for the years ended December 31, 2018 and 2017, respectively.

(2) Includes expected LAE to be paid of \$31 million as of December 31, 2018 and \$23 million as of December 31, 2017.

The following table presents the present value of net expected loss to be paid and the net economic loss development for all contracts by accounting model.

Net Expected Loss to be Paid (Recovered) and
Net Economic Loss Development (Benefit)
By Accounting Model

	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit)	
	As of December 31, 2018	As of December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017
	(in millions)			
Financial guaranty insurance	\$1,109	\$ 1,226	\$ (9)	\$ 353
FG VIEs (1) and other	76	91	(13)	(6)

Credit derivatives (2)	(2	) (14	) 17	(34)
Total	\$1,183	\$ 1,303	\$ (5	) \$ 313	

(1) See Note 9, Variable Interest Entities.

(2) See Note 8, Contracts Accounted for as Credit Derivatives.

Selected U.S. Public Finance Transactions

The Company insured general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.8 billion net par as of December 31, 2018, all of which was BIG. For additional information regarding the Company's Puerto Rico exposure, see "Exposure to Puerto Rico" in Note 4, Outstanding Exposure.

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As of December 31, 2018, the Company had insured \$326 million net par outstanding of general obligation bonds issued by the City of Hartford, Connecticut, most of which was rated BIG at December 31, 2017. In the first quarter of 2018, the State of Connecticut entered into a contract assistance agreement with the City of Hartford under which the state pays the debt service costs of the City's general obligation bonds, including those insured by the Company. As a result, the Company reduced the corresponding expected losses as of March 31, 2018 and upgraded this exposure to investment grade.

The Company had approximately \$18 million of net par exposure as of December 31, 2018 to bonds issued by Parkway East Public Improvement District (District), which is located in Madison County, Mississippi (the County). The bonds, which are rated BIG, are payable from special assessments on properties within the District, as well as amounts paid under a contribution agreement with the County in which the County covenants that it will provide funds in the event special assessments are not sufficient to make a debt service payment. The special assessments have not been sufficient to pay debt service in full. In earlier years, the County provided funding to cover the balance of the debt service requirement, but subsequently claimed the District's failure to reimburse it within the two years stipulated in the contribution agreement means that the County is not required to provide funding until it is reimbursed. See "Recovery Litigation" at the end of this note for the settlement agreement reached between the County, the District and AGC with respect to the County's obligations.

On February 25, 2015, a plan of adjustment resolving the bankruptcy filing of the City of Stockton, California under chapter 9 of the U.S. Bankruptcy Code became effective. As of December 31, 2018, the Company's net par subject to the plan consisted of \$110 million of pension obligation bonds. As part of the plan of adjustment, the City will repay any claims paid on the pension obligation bonds from certain fixed payments and certain variable payments contingent on the City's revenue growth.

The Company projects that its total net expected loss across its troubled U.S. public finance exposures as of December 31, 2018, including those mentioned above, would be \$832 million, compared with a net expected loss of \$1,157 million as of December 31, 2017. The total net expected loss for troubled U.S. public finance exposures is net of a credit for estimated future recoveries of claims already paid. At December 31, 2018, that credit was \$586 million, compared with \$385 million at December 31, 2017. The economic loss development in 2018 was \$70 million, which was primarily attributable to Puerto Rico exposures, partially offset by a benefit related to the Company's exposure to the City of Hartford.

Selected Non - U.S. Public Finance Transactions

The Company insures and reinsures transactions with sub-sovereign exposure to various Spanish and Portuguese issuers where a Spanish and Portuguese sovereign default may cause the sub-sovereigns also to default. The Company's exposure net of reinsurance to these Spanish and Portuguese exposures is \$432 million and \$71 million, respectively. The Company rates all of these exposures BIG due to the financial condition of Spain and Portugal and their dependence on the sovereign.

The Company also has exposure to infrastructure bonds dependent on payments from Hungarian governmental entities. The Company's exposure, net of reinsurance, to these Hungarian transactions is \$177 million, all of which was rated BIG.

The Company also insures an obligation backed by the availability and toll revenues of a major arterial road into a city in the U.K. with \$198 million of net par outstanding as of December 31, 2018. This transaction has been underperforming due to higher costs compared with expectations at underwriting, and is now rated BIG. However, traffic has been increasing, and in 2018, the Company changed its traffic assumptions for this road, resulting in a benefit.

These transactions, together with other non-U.S. public finance insured obligations, had expected loss to be paid of \$32 million as of December 31, 2018, compared with \$46 million as of December 31, 2017. The economic benefit of approximately \$14 million during 2018 was mainly attributable to the U.K. arterial road and changes in certain probability of default assumptions.

U.S. RMBS Loss Projections

The Company projects losses on its insured U.S. RMBS on a transaction-by-transaction basis by projecting the performance of the underlying pool of mortgages over time and then applying the structural features (i.e., payment priorities and tranching) of the RMBS and any expected R&W recoveries/payables to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates.

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The further behind a mortgage borrower falls in making payments, the more likely it is that he or she will default. The rate at which borrowers from a particular delinquency category (number of monthly payments behind) eventually default is referred to as the “liquidation rate.” The Company derives its liquidation rate assumptions from observed roll rates, which are the rates at which loans progress from one delinquency category to the next and eventually to default and liquidation. The Company applies liquidation rates to the mortgage loan collateral in each delinquency category and makes certain timing assumptions to project near-term mortgage collateral defaults from loans that are currently delinquent.

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay through the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default and when they will default, by first converting the projected near term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates (CDR), then projecting how the CDR will develop over time. Loans that are defaulted pursuant to the CDR after the near-term liquidation of currently delinquent loans represent defaults of currently performing loans and projected re-performing loans. A CDR is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (or “collateral pool balance”). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal prepayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector and vintage based on its experience to date. The Company continues to update its evaluation of these loss severities as new information becomes available.

The Company had been enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools. The Company calculates R&W recoveries and payables to include in its cash flow projections based on its agreements with R&W providers. As of December 31, 2018, the Company had a net R&W receivable of \$5 million from R&W counterparties, compared with a net R&W receivable of \$117 million as of December 31, 2017. The decrease was primarily due to cash received in 2018 from a favorable settlement of R&W litigation reached in late December 2017.

The Company projects the overall future cash flow from a collateral pool by adjusting the payment stream from the principal and interest contractually due on the underlying mortgages for the collateral losses it projects as described above; assumed voluntary prepayments; and servicer advances. The Company then applies an individual model of the structure of the transaction to the projected future cash flow from that transaction’s collateral pool to project the Company’s future claims and claim reimbursements for that individual transaction. Finally, the projected claims and reimbursements are discounted using risk-free rates. The Company runs several sets of assumptions regarding mortgage collateral performance, or scenarios, and probability weights them.

The Company's RMBS loss projection methodology assumes that the housing and mortgage markets will continue improving. Each period the Company makes a judgment as to whether to change the assumptions it uses to make RMBS loss projections based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, and, to the extent it observes changes, it makes a judgment as to whether those changes are normal fluctuations or part of a trend. The assumptions that the Company uses to project RMBS losses are shown in the sections below. The following table presents the U.S. RMBS net economic loss development (benefit).

Net Economic Loss Development (Benefit)
U.S. RMBS

	Year Ended	
	December	
	31,	
	2018	2017
	(in	
	millions)	
First lien U.S. RMBS	\$ 16	\$ 1
Second lien U.S. RMBS	(85)	(182)

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U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM, Subprime and Prime

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are or in the past twelve months have been two or more payments behind, have been modified, are in foreclosure, or have been foreclosed upon). Changes in the amount of non-performing loans from the amount projected in the previous period are one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various non-performing categories. The Company arrived at its liquidation rates based on data purchased from a third party provider and assumptions about how delays in the foreclosure process and loan modifications may ultimately affect the rate at which loans are liquidated. Each quarter the Company reviews the most recent twelve months of this data and (if necessary) adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing categories.

First Lien Liquidation Rates

	As of December 31,		
	2018	2017	2016
Delinquent/Modified in the Previous 12 Months			
Alt-A and Prime	20%	20%	25%
Option ARM	20	20	25
Subprime	20	20	25
30 – 59 Days Delinquent			
Alt-A and Prime	30	30	35
Option ARM	35	35	35
Subprime	40	40	40
60 – 89 Days Delinquent			
Alt-A and Prime	40	40	45
Option ARM	45	50	50
Subprime	45	50	50
90+ Days Delinquent			
Alt-A and Prime	50	55	55
Option ARM	55	60	55
Subprime	50	55	55
Bankruptcy			
Alt-A and Prime	45	45	45
Option ARM	50	50	50
Subprime	40	40	40
Foreclosure			
Alt-A and Prime	60	65	65
Option ARM	65	70	65
Subprime	60	65	65
Real Estate Owned			
All	100	100	100

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While the Company uses liquidation rates as described above to project defaults of non-performing loans (including current loans modified or delinquent within the last 12 months), it projects defaults on presently current loans by applying a CDR trend. The start of that CDR trend is based on the defaults the Company projects will emerge from currently nonperforming, recently nonperforming and modified loans. The total amount of expected defaults from the non-performing loans is translated into a constant CDR (i.e., the CDR plateau), which, if applied for each of the next 36 months, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The CDR thus calculated individually on the delinquent collateral pool for each RMBS is then used as the starting point for the CDR curve used to project defaults of the presently performing loans.

In the most heavily weighted scenario (the base case), after the initial 36-month CDR plateau period, each transaction's CDR is projected to improve over 12 months to an intermediate CDR (calculated as 20% of its CDR plateau); that intermediate CDR is held constant for 36 months and then trails off in steps to a final CDR of 5% of the CDR plateau. In the base case, the Company assumes the final CDR will be reached 4.5 years after the initial 36-month CDR plateau period. Under the Company's methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans that were modified or delinquent in the last 12 months or that are currently delinquent or in foreclosure, while the defaults projected to occur using the projected CDR trend after the first 36 month period represent defaults attributable to borrowers that are currently performing or are projected to reperform.

Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions had reached historically high levels, and the Company is assuming in the base case that the still elevated levels generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. Each quarter the Company reviews available data and (if necessary) adjusts its severities based on its observations. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning after the initial 18 month period, declining to 40% in the base case over 2.5 years.

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The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions used in the calculation of expected loss to be paid for individual transactions for vintage 2004 - 2008 first lien U.S. RMBS.

Key Assumptions in Base Case Expected Loss Estimates
First Lien RMBS

	As of December 31, 2018		As of December 31, 2017		As of December 31, 2016	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Alt-A First Lien						
Plateau CDR	1.2%–11.4%	4.6%	1.3%–9.8%	5.2%	1.0%–13.5%	5.7%
Final CDR	0.1%–0.6%	0.2%	0.1%–0.5%	0.3%	0.0%–0.7%	0.3%
Initial loss severity:						
2005 and prior	60%		60%		60%	
2006	70%		80%		80%	
2007+	70%		70%		70%	
Option ARM						
Plateau CDR	1.8%–8.3%	5.6%	2.5%–7.0%	5.9%	3.2%–7.0%	5.6%
Final CDR	0.1%–0.4%	0.3%	0.1%–0.3%	0.3%	0.2%–0.3%	0.3%
Initial loss severity:						
2005 and prior	60%		60%		60%	
2006	60%		70%		70%	
2007+	70%		75%		75%	
Subprime						
Plateau CDR	1.8%–23.2%	6.2%	3.5%–13.1%	7.8%	2.8%–14.1%	8.1%
Final CDR	0.1%–1.2%	0.3%	0.2%–0.7%	0.4%	0.1%–0.7%	0.4%
Initial loss severity:						
2005 and prior	80%		80%		80%	
2006	75%		90%		90%	
2007+	95%		95%		90%	

The rate at which the principal amount of loans is voluntarily prepaid may impact both the amount of losses projected (since that amount is a function of the CDR, the loss severity and the loan balance over time) as well as the amount of excess spread (the amount by which the interest paid by the borrowers on the underlying loan exceeds the amount of interest owed on the insured obligations). The assumption for the voluntary conditional prepayment rate (CPR) follows a similar pattern to that of the CDR. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be 15% in the base case. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. These CPR assumptions are the same as those the Company used for December 31, 2017.

In estimating expected losses, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast a recovery is expected to occur. One of the variables used to model sensitivities was how quickly the CDR returned to its modeled equilibrium, which was defined as 5% of the initial CDR. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a

total of five scenarios as of December 31, 2018 and December 31, 2017.

Total expected loss to be paid on all first lien U.S. RMBS was \$243 million and \$123 million as of December 31, 2018 and December 31, 2017, respectively. The reinsurance of the SGI portfolio added \$113 million of net expected loss to first lien U.S. RMBS on June 1, 2018. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of December 31, 2018 as it used as of December 31, 2017, increasing and decreasing the periods of stress from those used in the base case.

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In the Company's most stressful scenario where loss severities were assumed to rise and then recover over nine years and the initial ramp-down of the CDR was assumed to occur over 15 months, expected loss to be paid would increase from current projections by approximately \$54 million for all first lien U.S. RMBS transactions.

In the Company's least stressful scenario where the CDR plateau was six months shorter (30 months, effectively assuming that liquidation rates would improve) and the CDR recovery was more pronounced (including an initial ramp-down of the CDR over nine months), expected loss to be paid would decrease from current projections by approximately \$33 million for all first lien U.S. RMBS transactions.

U.S. Second Lien RMBS Loss Projections

Second lien RMBS transactions include both home equity lines of credit (HELOC) and closed end second lien mortgages. The Company believes the primary variable affecting its expected losses in second lien RMBS transactions is the amount and timing of future losses in the collateral pool supporting the transactions. Expected losses are also a function of the structure of the transaction, the voluntary prepayment rate (typically also referred to as CPR of the collateral), the interest rate environment, and assumptions about loss severity.

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally "charged off" (treated as defaulted) by the securitization's servicer once the loan is 180 days past due. The Company estimates the amount of loans that will default over the next six months by calculating current representative liquidation rates. Similar to first liens, the Company then calculates a CDR for six months, which is the period over which the currently delinquent collateral is expected to be liquidated. That CDR is then used as the basis for the plateau CDR period that follows the embedded plateau losses.

For the base case scenario, the CDR (the plateau CDR) was held constant for six months. Once the plateau period has ended, the CDR is assumed to gradually trend down in uniform increments to its final long-term steady state CDR. (The long-term steady state CDR is calculated as the constant CDR that would have yielded the amount of losses originally expected at underwriting.) In the base case scenario, the time over which the CDR trends down to its final CDR is 28 months. Therefore, the total stress period for second lien transactions is 34 months, representing six months of delinquent loan liquidations, followed by 28 months of decrease to the steady state CDR, the same as of December 31, 2017.

HELOC loans generally permit the borrower to pay only interest for an initial period (often ten years) and, after that period, require the borrower to make both the monthly interest payment and a monthly principal payment. This causes the borrower's total monthly payment to increase, sometimes substantially, at the end of the initial interest-only period. In the prior periods, as the HELOC loans underlying the Company's insured HELOC transactions reached their principal amortization period, the Company incorporated an assumption that a percentage of loans reaching their principal amortization periods would default around the time of the payment increase.

The HELOC loans underlying the Company's insured HELOC transactions are now past their original interest-only reset date, although a significant number of HELOC loans were modified to extend the original interest-only period for another five years. As a result, in 2017, the Company eliminated the CDR increase that was applied when such loans reached their principal amortization period. In addition, based on the average performance history, starting in the third quarter of 2017, the Company applied a CDR floor of 2.5% for the future steady state CDR on all its HELOC transactions.

When a second lien loan defaults, there is generally a very low recovery. The Company assumed as of December 31, 2018 that it will generally recover only 2% of future defaulting collateral at the time of charge-off, with additional

amounts of post charge-off recoveries assumed to come in over time. This is the same assumption used as of December 31, 2017. A second lien on the borrower's home may be retained in the Company's second lien transactions after the loan is charged off and the loss applied to the transaction, particularly in cases where the holder of the first lien has not foreclosed. If the second lien is retained and the value of the home increases, the servicer may be able to use the second lien to increase recoveries, either by arranging for the borrower to resume payments or by realizing value upon the sale of the underlying real estate. In instances where the Company is able to obtain information on the lien status of charged-off loans, it assumes future recoveries of 10% of the balance of the charged off loans where the second lien is still intact. The Company assumes the recoveries are received evenly over the next five years, although actual recoveries will vary. The Company evaluates its assumptions periodically based on actual recoveries of charged off loans.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected as well as the amount of excess spread. In the base case, an average CPR (based on experience of the past year) is assumed to continue

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until the end of the plateau before gradually increasing to the final CPR over the same period the CDR decreases. The final CPR is assumed to be 15% for second lien transactions (in the base case), which is lower than the historical average but reflects the Company's continued uncertainty about the projected performance of the borrowers in these transactions. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. This pattern is generally consistent with how the Company modeled the CPR as of December 31, 2017. To the extent that prepayments differ from projected levels it could materially change the Company's projected excess spread and losses.

In estimating expected losses, the Company modeled and probability weighted five scenarios, each with a different CDR curve applicable to the period preceding the return to the long-term steady state CDR. The Company believes that the level of the elevated CDR and the length of time it will persist and the ultimate prepayment rate are the primary drivers behind the likely amount of losses the collateral will suffer.

The Company continues to evaluate the assumptions affecting its modeling results. The Company believes the most important driver of its projected second lien RMBS losses is the performance of its HELOC transactions. Total expected loss to be paid on all second lien U.S. RMBS was \$50 million as of December 31, 2018 and total expected recovery on all second lien U.S. RMBS was \$50 million as of December 31, 2017, respectively. This change was primarily due to cash received in 2018 from a favorable settlement of R&W litigation reached in late December 2017 and the addition of \$17 million of net expected loss on second lien U.S. RMBS from reinsurance of the SGI portfolio on June 1, 2018 and partially offset by improvement in the performance of primarily HELOC transactions.

The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions for the calculation of expected loss to be paid for individual transactions for vintage 2004 - 2008 HELOCs.

Key Assumptions in Base Case Expected Loss Estimates
HELOCs

	As of December 31, 2018		As of December 31, 2017		As of December 31, 2016	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Plateau CDR	4.6%-26.8%	10.1%	2.7%-49.9%	11.4%	3.5%-24.8%	13.6%
Final CDR trended down to	2.5%-3.2%	2.5%	2.5%-3.2%	2.5%	0.5%-3.2%	1.3%
Liquidation rates:						
Delinquent/Modified in the Previous 12 Months	20%		20%		25%	
30 – 59 Days Delinquent	35		45		50	
60 – 89 Days Delinquent	50		60		65	
90+ Days Delinquent	70		75		80	
Bankruptcy	55		55		55	
Foreclosure	65		70		75	
Real Estate Owned	100		100		100	
Loss severity	98%		98%		98%	

The Company's base case assumed a six month CDR plateau and a 28 month ramp-down (for a total stress period of 34 months). The Company also modeled a scenario with a longer period of elevated defaults and another with a shorter period of elevated defaults. In the Company's most stressful scenario, increasing the CDR plateau to eight

months and increasing the ramp-down by three months to 31 months (for a total stress period of 39 months) would increase the expected loss by approximately \$9 million for HELOC transactions. On the other hand, in the Company's least stressful scenario, reducing the CDR plateau to four months and decreasing the length of the CDR ramp-down to 25 months (for a total stress period of 29 months), and lowering the ultimate prepayment rate to 10% would decrease the expected loss by approximately \$10 million for HELOC transactions.

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Other Structured Finance

The Company had \$1.2 billion of net par exposure to financial guaranty triple-X life insurance transactions as of December 31, 2018, of which \$85 million in net par is rated BIG. The triple-X life insurance transactions are based on discrete blocks of individual life insurance business. In older vintage triple-X life insurance transactions, which include the BIG-rated transactions, the amounts raised by the sale of the notes insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The amounts have been invested since inception in accounts managed by third-party investment managers. In the case of the BIG-rated transactions, material amounts of their assets were invested in U.S. RMBS.

The Company has insured or reinsured \$1.1 billion net par of student loan securitizations issued by private issuers that are classified as structured finance. Of this amount, \$96 million is rated BIG. In general, the projected losses are due to: (i) the poor credit performance of private student loan collateral and high loss severities, or (ii) high interest rates on auction rate securities with respect to which the auctions have failed.

The Company projected that its total net expected loss across its troubled non-U.S. RMBS structured finance exposures as of December 31, 2018, including those mentioned above, was \$26 million and is primarily attributable to structured student loans. The economic loss development of \$8 million was related to progress on efforts to workout triple-X life insurance transactions and LAE.

Recovery Litigation

In the ordinary course of their respective businesses, certain of AGL's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods or prevent losses in the future.

Public Finance Transactions

The Company has asserted claims in a number of legal proceedings in connection with its exposure to Puerto Rico. See Note 4, Outstanding Exposure, for a discussion of the Company's exposure to Puerto Rico and related recovery litigation being pursued by the Company.

On November 1, 2013, Radian Asset Assurance Inc. commenced a declaratory judgment action in the U.S. District Court for the Southern District of Mississippi against Madison County, Mississippi (the County) and the Parkway East Public Improvement District (District) to establish its rights under a contribution agreement from the County supporting certain special assessment bonds issued by the District and insured by Radian Asset Assurance Inc. (now AGC). As of December 31, 2018, \$18 million of such bonds were outstanding. The County maintained that its payment obligation is limited to two years of annual debt service, while AGC contended the County's obligations under the contribution agreement continue so long as the bonds remain outstanding. On April 27, 2016, the district court granted AGC's motion for summary judgment, agreeing with AGC's interpretation of the County's obligations. The County appealed the district court's summary judgment ruling to the United States Court of Appeals for the Fifth Circuit, and on May 31, 2017, the appellate court reversed the district court's ruling and remanded the matter to the district court. In March 2018, the County, the District, and AGC executed a settlement agreement which formalizes the procedures related to the disposition of assessments and of the properties that have defaulted, and on May 11, 2018, the district court dismissed the case. The settlement agreement also provides for the County owned property to be conveyed to the District, which, to the extent practicable, is obligated to lease, sell or otherwise dispose of the property to maximize pledged revenues. Any such actions will require AGC's consent.

RMBS Transactions

On November 26, 2012, CIFGNA filed a complaint in the Supreme Court of the State of New York against JP Morgan Securities LLC (JP Morgan) for material misrepresentation in the inducement of insurance and common law fraud, alleging that JP Morgan fraudulently induced CIFGNA to insure \$400 million of securities issued by ACA ABS CDO 2006-2 Ltd. and \$325 million of securities issued by Libertas Preferred Funding II, Ltd. On June 26, 2015, the court dismissed with prejudice CIFGNA's material misrepresentation in the inducement of insurance claim and dismissed without prejudice CIFGNA's common law fraud claim. On September 24, 2015, the court denied CIFGNA's motion to amend but allowed CIFGNA to re-plead a cause of action for common law fraud. On November 20, 2015, CIFGNA filed a motion for leave to amend its complaint to re-plead common law fraud. On April 29, 2016, CIFGNA filed an appeal to reverse the court's decision dismissing CIFGNA's material misrepresentation in the inducement of insurance claim. On November 29, 2016, the Appellate Division of the Supreme Court of the State of New York ruled that the court's decision dismissing with prejudice CIFGNA's material

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misrepresentation in the inducement of insurance claim should be modified to grant CIFGNA leave to re-plead such claim. On February 27, 2017, AGC (as successor to CIFGNA) filed an amended complaint which includes a claim for material misrepresentation in the inducement of insurance.

6. Contracts Accounted for as Insurance

Premiums

The portfolio of outstanding exposures discussed in Note 4, Outstanding Exposure, includes contracts that meet the definition of insurance contracts, contracts that meet the definition of a derivative, and contracts that are accounted for as consolidated FG VIEs. Amounts presented in this note relate only to insurance contracts. See Note 8, Contracts Accounted for as Credit Derivatives for amounts that relate to CDS and Note 9, Variable Interest Entities for amounts that relate to FG VIEs.

Accounting Policies

Accounting for financial guaranty contracts that meet the scope exception under derivative accounting guidance are subject to industry specific guidance for financial guaranty insurance. The accounting for contracts that fall under the financial guaranty insurance definition are consistent whether contracts are written on a direct basis, assumed from another financial guarantor under a reinsurance treaty, ceded to another insurer under a reinsurance treaty, or acquired in a business combination.

Premiums receivable represent the present value of contractual or expected future premium collections discounted using risk free rates. Unearned premium reserve represents deferred premium revenue, less claim payments made and recoveries received that have not yet been recognized in the statement of operations (contra-paid). The following discussion relates to the deferred premium revenue component of the unearned premium reserve, while the contra-paid is discussed below under "Financial Guaranty Insurance Losses."

The amount of deferred premium revenue at contract inception is determined as follows:

For premiums received upfront on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is equal to the amount of cash received. Upfront premiums typically relate to public finance transactions.

For premiums received in installments on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is the present value (discounted at risk free rates) of either (1) contractual premiums due or (2) in cases where the underlying collateral is composed of homogeneous pools of assets, the expected premiums to be collected over the life of the contract. To be considered a homogeneous pool of assets, prepayments must be contractually allowable, the amount of prepayments must be probable, and the timing and amount of prepayments must be reasonably estimable. Installment premiums typically relate to structured finance transactions, where the insurance premium rate is determined at the inception of the contract but the insured par is subject to prepayment throughout the life of the transaction.

For financial guaranty insurance contracts acquired in a business combination, deferred premium revenue is equal to the fair value of the Company's stand-ready obligation portion of the insurance contract at the date of acquisition based on what a hypothetical similarly rated financial guaranty insurer would have charged for the contract at that date and not the actual cash flows under the insurance contract. The amount of deferred premium revenue may differ significantly from cash collections primarily due to fair value adjustments recorded in connection with a business combination.

When the Company adjusts prepayment assumptions or expected premium collections, an adjustment is recorded to the deferred premium revenue, with a corresponding adjustment to the premium receivable. Premiums receivable are discounted at the risk-free rate at inception and such discount rate is updated only when changes to prepayment assumptions are made that change the expected date of final maturity.

The Company recognizes deferred premium revenue as earned premium over the contractual period or expected period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease to the deferred premium revenue is recorded. The amount of insurance protection provided is a function of the insured principal amount outstanding. Accordingly, the proportionate share of premium revenue recognized in a given reporting period is a constant rate calculated based on the relationship between the insured principal amounts outstanding in the reporting period compared with the sum of each of the insured principal amounts outstanding for all periods. When an insured

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financial obligation is retired before its maturity, the financial guaranty insurance contract is extinguished. Any nonrefundable deferred premium revenue related to that contract is accelerated and recognized as premium revenue. When a premium receivable balance is deemed uncollectible, it is written off to bad debt expense.

For assumed reinsurance contracts, net earned premiums reported in the consolidated statements of operations are calculated based upon data received from ceding companies; however, some ceding companies report premium data between 30 and 90 days after the end of the reporting period. The Company estimates net earned premiums for the lag period. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined. When installment premiums are related to assumed reinsurance contracts, the Company assesses the credit quality and liquidity of the ceding companies and the impact of any potential regulatory constraints to determine the collectability of such amounts.

Ceded unearned premium reserve is recorded as an asset. Direct, assumed and ceded earned premiums are presented together as net earned premiums in the statement of operations. See Note 13, Reinsurance, for a breakout of direct, assumed and ceded premiums. The components of net earned premiums are shown in the table below:

Net Earned Premiums

	Year Ended December 31, 2018 2017 2016 (in millions)		
Financial guaranty:			
Scheduled net earned premiums	\$367	\$385	\$381
Accelerations from refundings and terminations	159	286	469
Accretion of discount on net premiums receivable	18	17	14
Financial guaranty insurance net earned premiums	544	688	864
Non-financial guaranty net earned premiums	4	2	—
Net earned premiums (1)	\$548	\$690	\$864

(1) Excludes \$12 million, \$15 million and \$16 million for the years ended December 31, 2018, 2017 and 2016, respectively, related to consolidated FG VIEs.

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Gross Premium Receivable,
Net of Commissions on Assumed Business
Roll Forward

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Beginning of year	\$915	\$576	\$693
Less: Non-financial guaranty insurance premium receivable	1	—	—
FG insurance premiums receivable	914	576	693
Premiums receivable from acquisitions (see Note 2)	—	270	18
Gross written premiums on new business, net of commissions (1)	610	301	193
Gross premiums received, net of commissions (2)	(577)	(301)	(258)
Adjustments:			
Changes in the expected term	(8)	(8)	(38)
Accretion of discount, net of commissions on assumed business	9	12	9
Foreign exchange translation and remeasurement (3)	(35)	64	(41)
Cancellation of assumed reinsurance	(10)	—	—
FG insurance premium receivable (4)	903	914	576
Non-financial guaranty insurance premium receivable	1	1	—
December 31,	\$904	\$915	\$576

For transactions where one of the Company's financial guaranty contracts is replaced by another of the Company's insurance subsidiary's contracts, gross written premiums in this table represents only the incremental amount in (1) excess of the original gross written premiums. The year ended December 31, 2018 includes \$330 million of gross written premiums assumed from SGI on June 1, 2018. See Note 2, Assumption of Insured Portfolio and Business Combinations.

(2) The year ended December 31, 2018 includes \$275 million of cash received from SGI on June 1, 2018.

Includes foreign exchange gain (loss) on remeasurement recorded in the consolidated statements of operations of (3) \$(33) million in 2018, \$61 million in 2017, \$(36) million in 2016. The remaining foreign exchange translation was recorded in OCI prior to the date of the Combination.

(4) Excludes \$9 million, \$10 million and \$11 million as of December 31, 2018, 2017 and 2016, respectively, related to consolidated FG VIEs.

Approximately 72% of installment premiums at both December 31, 2018 and December 31, 2017, respectively, are denominated in currencies other than the U.S. dollar, primarily the euro and pound sterling.

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The timing and cumulative amount of actual collections may differ from expected collections in the table below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, accelerations, commutations, changes in expected lives and new business.

Expected Collections of
Financial Guaranty Insurance Gross Premiums Receivable,
Net of Commissions on Assumed Business
(Undiscounted)

	As of December 31, 2018 (in millions)
2019 (January 1 – March 31)	\$ 33
2019 (April 1 – June 30)	32
2019 (July 1 – September 30)	21
2019 (October 1 – December 31)	18
2020	98
2021	79
2022	79
2023	66
2024-2028	278
2029-2033	182
2034-2038	98
After 2038	100
Total (1)	\$ 1,084

(1) Excludes expected cash collections on consolidated FG VIEs of \$11 million.

The timing and cumulative amount of actual net earned premiums may differ from expected net earned premiums in the table below due to factors such as accelerations, commutations, changes in expected lives and new business.

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Scheduled Financial Guaranty Insurance Net Earned Premiums

	As of December 31, 2018 (in millions)
2019 (January 1 – March 31)	\$ 87
2019 (April 1 – June 30)	84
2019 (July 1 – September 30)	82
2019 (October 1 – December 31)	79
Subtotal 2019	332
2020	302
2021	275
2022	250
2023	229
2024-2028	898
2029-2033	603
2034-2038	339
After 2038	284
Net deferred premium revenue (1)	3,512
Future accretion	181
Total future net earned premiums	\$ 3,693

(1) Excludes net earned premiums on consolidated FG VIEs of \$65 million and non-financial guaranty business net earned premium of \$12 million.

Selected Information for Financial Guaranty Insurance
Policies Paid in Installments

	As of December 31, 2018	As of December 31, 2017		
	(dollars in millions)			
Premiums receivable, net of commission payable	\$ 903	\$ 914		
Gross deferred premium revenue	1,313	1,205		
Weighted-average risk-free rate used to discount premiums	2.3	%	2.3	%
Weighted-average period of premiums receivable (in years)	9.1		9.2	

Financial Guaranty Insurance Acquisition Costs

Accounting Policy

Policy acquisition costs that are directly related and essential to successful insurance contract acquisition, as well as ceding commission income and expense on ceded and assumed reinsurance contracts, are deferred and reported net.

Capitalized policy acquisition costs include the cost of underwriting personnel attributable to successful underwriting efforts. Management uses its judgment in determining the type and amount of costs to be deferred. The Company conducts an annual study to determine deferral rates.

Ceding commission expense on assumed reinsurance contracts and ceding commission income on ceded reinsurance contracts that are associated with premiums received in installments are calculated at their contractually defined commission rates, discounted consistent with premiums receivable for all future periods, and included in deferred acquisition costs (DAC), with a corresponding offset to net premiums receivable or reinsurance balances payable.

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DAC is amortized in proportion to net earned premiums. Amortization of deferred policy acquisition costs includes the accretion of discount on ceding commission receivable and payable. When an insured obligation is retired early, the remaining related DAC is recognized at that time. Costs incurred for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs are charged to expense as incurred.

Expected losses and LAE, investment income, and the remaining costs of servicing the insured or reinsured business, are considered in determining the recoverability of DAC.

Rollforward of
Deferred Acquisition Costs

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Beginning of year	\$101	\$106	\$114
DAC adjustments from acquisitions (see Note 2)	—	(2)	—
Costs deferred during the period	19	16	11
Costs amortized during the period	(15)	(19)	(19)
December 31,	\$105	\$101	\$106

Financial Guaranty Insurance Losses

Accounting Policies

Loss and LAE Reserve

Loss and LAE reserve reported on the balance sheet relates only to direct and assumed reinsurance contracts that are accounted for as insurance, substantially all of which are financial guaranty insurance contracts. The corresponding reserve ceded to reinsurers is reported as reinsurance recoverable on unpaid losses and reported in other assets. As discussed in Note 7, Fair Value Measurement, contracts that meet the definition of a derivative, as well as consolidated FG VIEs' assets and liabilities, are recorded separately at fair value. Any expected losses related to consolidated FG VIEs are eliminated upon consolidation.

Under financial guaranty insurance accounting, the sum of unearned premium reserve and loss and LAE reserve represents the Company's stand ready obligation. Unearned premium reserve is deferred premium revenue, less claim payments and recoveries received that have not yet been recognized in the statement of operations (contra-paid). At contract inception, the entire stand-ready obligation is represented by unearned premium reserve. A loss and LAE reserve for an insurance contract is recorded only to the extent, and for the amount, that expected loss to be paid plus contra-paid ("total losses") exceed the deferred premium revenue, on a contract by contract basis. As a result, the Company has expected loss to be paid that has not yet been expensed. Such amounts will be recognized in future periods as deferred premium revenue amortizes into income.

When a claim or LAE payment is made on a contract, it first reduces any recorded loss and LAE reserve. To the extent there is no loss and LAE reserve on a contract, then such claim payment is recorded as "contra-paid," which reduces the unearned premium reserve. The contra-paid is recognized in the line item "loss and LAE" in the consolidated statement of operations when and for the amount that total losses exceed the remaining deferred premium revenue on the insurance contract. Loss and LAE in the consolidated statement of operations is presented net of cessions to

reinsurers.

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Salvage and Subrogation Recoverable

When the Company becomes entitled to the cash flow from the underlying collateral of an insured exposure under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. Such reduction in expected loss to be paid can result in one of the following:

- a reduction in the corresponding loss and LAE reserve with a benefit to the income statement,
- no entry recorded, if “total loss” is not in excess of deferred premium revenue, or
- the recording of a salvage asset with a benefit to the income statement if the transaction is in a net recovery position at the reporting date.

The ceded component of salvage and subrogation recoverable is recorded in the line item other liabilities.

Expected Loss to be Expensed

Expected loss to be expensed represents past or expected future net claim payments that have not yet been expensed. Such amounts will be expensed in future periods as deferred premium revenue amortizes into income on financial guaranty insurance policies. Expected loss to be expensed is the Company's projection of incurred losses that will be recognized in future periods, excluding accretion of discount.

Insurance Contracts' Loss Information

The following table provides information on net reserve (salvage), which includes loss and LAE reserves and salvage and subrogation recoverable, both net of reinsurance. To discount loss reserves, the Company used risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 0.0% to 3.06% with a weighted average of 2.74% as of December 31, 2018 and from 0.0% to 2.78% with a weighted average of 2.39% as of December 31, 2017.

Net Reserve (Salvage)

	As of December 2018	As of December 31, 2017	
	(in millions)		
Public finance:			
U.S. public finance	\$612	\$ 901	
Non-U.S. public finance	14	21	
Public finance	626	922	
Structured finance:			
U.S. RMBS (1)	21	(114)
Other structured finance	30	40	
Structured finance	51	(74)
Subtotal	677	848	
Other payable (recoverable)	(3	) (4)
Total	\$674	\$ 844	

(1)

Excludes net reserves of \$47 million and \$55 million as of December 31, 2018 and December 31, 2017, respectively, related to consolidated FG VIEs.

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Components of Net Reserves (Salvage)

	As of December 31, 2018	As of December 31, 2017
	(in millions)	
Loss and LAE reserve	\$1,177	\$ 1,444
Reinsurance recoverable on unpaid losses (1)	(34)	(44)
Loss and LAE reserve, net	1,143	1,400
Salvage and subrogation recoverable	(490)	(572)
Salvage and subrogation payable (2)	24	20
Other payable (recoverable) (1)	(3)	(4)
Salvage and subrogation recoverable, net and other recoverable	(469)	(556)
Net reserves (salvage)	\$674	\$ 844

(1) Recorded as a component of other assets in consolidated balance sheets.

(2) Represents ceded reinsurance amounts recorded as a component of other liabilities in consolidated balance sheets.

The table below provides a reconciliation of net expected loss to be paid to net expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (i) the contra-paid which represent the claim payments made and recoveries received that have not yet been recognized in the statement of operations, (ii) salvage and subrogation recoverable for transactions that are in a net recovery position where the Company has not yet received recoveries on claims previously paid (and therefore recognized in income but not yet received), and (iii) loss reserves that have already been established (and therefore expensed but not yet paid).

Reconciliation of Net Expected Loss to be Paid and
Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of December 31, 2018
	(in millions)
Net expected loss to be paid - financial guaranty insurance (1)	\$ 1,109
Contra-paid, net	71
Salvage and subrogation recoverable, net, and other recoverable	469
Loss and LAE reserve - financial guaranty insurance contracts, net of reinsurance	(1,142)
Net expected loss to be expensed (present value) (2)	\$ 507

(1) See "Net Expected Loss to be Paid (Recovered) by Accounting Model" table in Note 5, Expected Loss to be Paid.

(2) Excludes \$42 million as of December 31, 2018 related to consolidated FG VIEs.

The following table provides a schedule of the expected timing of net expected losses to be expensed. The amount and timing of actual loss and LAE may differ from the estimates shown below due to factors such as accelerations, commutations, changes in expected lives and updates to loss estimates. This table excludes amounts related to FG

VIEs, which are eliminated in consolidation.

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Financial Guaranty Insurance Contracts

	As of December 31, 2018 (in millions)
2019 (January 1 – March 31)	\$ 8
2019 (April 1 – June 30)	10
2019 (July 1 – September 30)	9
2019 (October 1 – December 31)	9
Subtotal 2019	36
2020	37
2021	39
2022	40
2023	38
2024-2028	156
2029-2033	104
2034-2038	47
After 2038	10
Net expected loss to be expensed	507
Future accretion	88
Total expected future loss and LAE	\$ 595

The following table presents the loss and LAE recorded in the consolidated statements of operations by sector for insurance contracts. Amounts presented are net of reinsurance.

Loss and LAE
Reported on the
Consolidated Statements of Operations

	Loss (Benefit) Year Ended December 31, 2018 2017 2016 (in millions)		
Public finance:			
U.S. public finance	\$90	\$553	\$307
Non-U.S. public finance	(7)	(4)	(3)
Public finance	83	549	304
Structured finance:			
U.S. RMBS (1)	(15)	(113)	30
Other structured finance	(4)	(48)	(39)
Structured finance	(19)	(161)	(9)
Loss and LAE	\$64	\$388	\$295

(1)

Excludes a benefit of \$3 million, a loss of \$7 million and a loss of \$7 million for the years ended December 31, 2018, 2017 and 2016, respectively, related to consolidated FG VIEs.

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The following tables provide information on financial guaranty insurance contracts categorized as BIG.

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2018

	BIG Categories						Total BIG, Net	Effect of Consolidating FG VIEs	Total
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks (1)	128	(8)	39	(1)	145	(7)	312	—	312
Remaining weighted-average contract period (in years)	7.9	6.5	13.2	2.1	10.1	9.1	9.8	—	9.8
Outstanding exposure:									
Principal	\$3,052	\$(71)	\$938	\$(6)	\$6,249	\$(159)	\$10,003	\$ —	\$10,003
Interest	1,319	(29)	592	(1)	3,140	(72)	4,949	—	4,949
Total (2)	\$4,371	\$(100)	\$1,530	\$(7)	\$9,389	\$(231)	\$14,952	\$ —	\$14,952
Expected cash outflows (inflows)	\$98	\$(5)	\$264	\$(1)	\$4,029	\$(80)	\$4,305	\$ (290)	\$4,015
Potential recoveries (3)	(465)	23	(81)	—	(2,542)	55	\$(3,010)	192	(2,818)
Subtotal	(367)	18	183	(1)	1,487	(25)	1,295	(98)	1,197
Discount	83	(5)	(53)	—	(134)	(2)	(111)	23	(88)
Present value of expected cash flows	\$(284)	\$13	\$130	\$(1)	\$1,353	\$(27)	\$1,184	\$ (75)	\$1,109
Deferred premium revenue	\$125	\$(4)	\$151	\$—	\$518	\$(2)	\$788	\$ (64)	\$724
Reserves (salvage)	\$(311)	\$15	\$48	\$(1)	\$993	\$(24)	\$720	\$ (47)	\$673

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Financial Guaranty Insurance
 BIG Transaction Loss Summary
 As of December 31, 2017

	BIG Categories						Total BIG, Net	Effect of Consolidating FG VIEs	Total
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks (1)	139	(22)	46	(3)	150	(41)	335	—	335
Remaining weighted-average contract period (in years)	8.9	7.3	14.0	2.9	9.6	9.3	9.9	—	9.9
Outstanding exposure:									
Principal	\$4,397	\$(96)	\$1,352	\$(8)	\$6,445	\$(190)	\$11,900	\$ —	\$11,900
Interest	2,110	(42)	1,002	(1)	3,098	(86)	6,081	—	6,081
Total (2)	\$6,507	\$(138)	\$2,354	\$(9)	\$9,543	\$(276)	\$17,981	\$ —	\$17,981
Expected cash outflows (inflows)	\$186	\$(5)	\$492	\$(1)	\$3,785	\$(104)	\$4,353	\$(307)	\$4,046
Potential recoveries (3)	(595)	20	(145)	—	(2,273)	67	(2,926)	194	(2,732)
Subtotal	(409)	15	347	(1)	1,512	(37)	1,427	(113)	1,314
Discount	66	(4)	(93)	—	(78)	(2)	(111)	23	(88)
Present value of expected cash flows	\$(343)	\$11	\$254	\$(1)	\$1,434	\$(39)	\$1,316	\$(90)	\$1,226
Deferred premium revenue	\$112	\$(5)	\$129	—	\$540	\$(6)	\$770	\$(74)	\$696
Reserves (salvage)	\$(380)	\$11	\$202	\$(1)	\$1,100	\$(34)	\$898	\$(55)	\$843

A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of (1) making debt service payments. The ceded number of risks represents the number of risks for which the Company ceded a portion of its exposure.

(2) Includes BIG amounts related to FG VIEs.

(3) Represents expected inflows for future payments by obligors pursuant to restructuring agreements, settlement or litigation judgments, excess spread on any underlying collateral and other estimated recoveries.

Ratings Impact on Financial Guaranty Business

A downgrade of one of AGL's insurance subsidiaries may result in increased claims under financial guaranties issued by the Company if counterparties exercise contractual rights triggered by the downgrade against insured obligors, and the insured obligors are unable to pay.

For example, AGM has issued financial guaranty insurance policies in respect of the obligations of municipal obligors under interest rate swaps. AGM insures periodic payments owed by the municipal obligors to the bank counterparties. In certain cases, AGM also insures termination payments that may be owed by the municipal obligors to the bank counterparties. If (i) AGM has been downgraded below the rating trigger set forth in a swap under which it has insured the termination payment, which rating trigger varies on a transaction by transaction basis; (ii) the municipal obligor has the right to cure by, but has failed in, posting collateral, replacing AGM or otherwise curing the downgrade of AGM; (iii) the transaction documents include as a condition that an event of default or termination event with respect to the municipal obligor has occurred, such as the rating of the municipal obligor being

downgraded past a specified level, and such condition has been met; (iv) the bank counterparty has elected to terminate the swap; (v) a termination payment is payable by the municipal obligor; and (vi) the municipal obligor has failed to make the termination payment payable by it, then AGM would be required to pay the termination payment due by the municipal obligor, in an amount not to exceed the policy limit set forth in the financial guaranty insurance policy. Taking into consideration whether the rating of the municipal obligor is below any applicable specified trigger, if the financial strength ratings of AGM were downgraded below "A" by S&P or below "A2" by Moody's, and the conditions giving rise to the obligation of AGM to make a payment under the swap policies were all satisfied, then AGM could pay claims in an amount not exceeding approximately \$212 million in respect of such termination payments.

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As another example, with respect to variable rate demand obligations (VRDOs) for which a bank has agreed to provide a liquidity facility, a downgrade of AGM or AGC may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a “bank bond rate” that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% — 3.00%, and capped at the lesser of 25% and the maximum legal limit). In the event the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to AGM or AGC under its financial guaranty policy. As of December 31, 2018, AGM and AGC had insured approximately \$4.5 billion net par of VRDOs, of which approximately \$53 million of net par constituted VRDOs issued by municipal obligors rated BBB- or lower pursuant to the Company’s internal rating. The specific terms relating to the rating levels that trigger the bank’s termination right, and whether it is triggered by a downgrade by one rating agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction.

In addition, AGM may be required to pay claims in respect of AGMH’s former financial products business if Dexia SA and its affiliates, from which the Company had purchased AGMH and its subsidiaries, do not comply with their obligations following a downgrade of the financial strength rating of AGM. A downgrade of the financial strength rating of AGM could trigger a payment obligation of AGM in respect to AGMH’s former guaranteed investment contracts (GIC) business. Most GICs insured by AGM allow for the termination of the GIC contract and a withdrawal of GIC funds at the option of the GIC holder in the event of a downgrade of AGM below a specified threshold, generally below A- by S&P or A3 by Moody’s. AGMH’s former subsidiary FSA Asset Management LLC is expected to have sufficient eligible and liquid assets to satisfy any expected withdrawal and collateral posting obligations resulting from future rating actions affecting AGM.

7. Fair Value Measurement

The Company carries a significant portion of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on a hypothetical market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party’s proprietary pricing models. In addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company’s credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company’s creditworthiness and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During 2018, no changes were made to the Company’s valuation models that had or are expected to have, a material impact on the Company’s consolidated balance sheets or statements of operations and comprehensive income.

The Company's methods for calculating fair value produce a fair value that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The categorization within the fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels as follows, with Level 1 being the highest and Level 3 the lowest. An asset's or liability's categorization is based on the lowest level of significant input to its valuation.

Level 1—Quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

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Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

During the periods presented, there were no transfers into or from Level 3 except for one transfer from Level 2 into Level 3 during 2017 because starting in the second quarter of 2017 the price of the security includes a significant unobservable assumption.

Measured and Carried at Fair Value

Fixed-Maturity Securities and Short-Term Investments

The fair value of bonds in the investment portfolio is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value measurements using their pricing models, which take into account: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, industry and economic events and sector groupings. Additional valuation factors that can be taken into account are nominal spreads and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news.

Benchmark yields have in many cases taken priority over reported trades for securities that trade less frequently or those that are distressed trades, and therefore may not be indicative of the market. The extent of the use of each input is dependent on the asset class and the market conditions. The valuation of fixed-maturity investments is more subjective when markets are less liquid due to the lack of market based inputs.

Short-term investments that are traded in active markets are classified within Level 1 in the fair value hierarchy and their value is based on quoted market prices. Securities such as discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value.

As of December 31, 2018, the Company used models to price 123 securities, primarily securities that were purchased or obtained for loss mitigation or other risk management purposes, with a fair value of \$1,411 million. Most Level 3 securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could have materially changed the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

Other Invested Assets

As of December 31, 2018 and December 31, 2017, other invested assets included investments carried and measured at fair value on a recurring basis of \$3 million and \$48 million, respectively. December 31, 2017 included primarily preferred stock investments in the global property catastrophe risk market and in a fund that invested primarily in senior loans and bonds, which were sold in 2018. Fair values for the preferred stock investments were based on their respective net asset value (NAV) per share or equivalent. Included in the amounts above are other equity investments that were carried at their fair value of \$2 million as of December 31, 2018 and December 31, 2017. These equity investments were classified as Level 3.

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Other Assets

Committed Capital Securities

The fair value of committed capital securities (CCS), which is recorded in “other assets” on the consolidated balance sheets, represents the difference between the present value of remaining expected put option premium payments under AGC CCS and AGM’s Committed Preferred Trust Securities (the AGM CPS) agreements, and the estimated present value that the Company would hypothetically have to pay currently for a comparable security (see Note 16, Long Term Debt and Credit Facilities). The AGC CCS and AGM CPS are carried at fair value with changes in fair value recorded in other income in the consolidated statement of operations. The estimated current cost of the Company’s CCS is based on several factors, including AGM and AGC CDS spreads, London Interbank Offered Rate (LIBOR) curve projections, the Company’s publicly traded debt and the term the securities are estimated to remain outstanding.

Supplemental Executive Retirement Plans

The Company classifies the fair value measurement of the assets of the Company’s various supplemental executive retirement plans as either Level 1 or Level 2. The fair value of these assets is valued based on the observable published daily values of the underlying mutual fund included in the aforementioned plans (Level 1) or based upon the NAV of the funds if a published daily value is not available (Level 2). The NAV’s are based on observable information.

Contracts Accounted for as Credit Derivatives

The Company’s credit derivatives primarily consist of insured CDS contracts, and also include interest rate swaps that fall under derivative accounting standards requiring fair value accounting through the statement of operations. The following is a description of the fair value methodology applied to the Company’s insured CDS that are accounted for as credit derivatives. The Company did not enter into CDS with the intent to trade these contracts and the Company may not unilaterally terminate a CDS contract absent an event of default or termination event that entitles the Company to terminate such contracts; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. In transactions where the counterparty does not have the right to terminate, such transactions are generally terminated for an amount that approximates the present value of future premiums or for a negotiated amount, rather than at fair value.

The terms of the Company’s CDS contracts differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. The non-standard terms generally include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points and does not exit derivatives it sells, except under specific circumstances such as mutual agreements with counterparties. Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts.

Due to the lack of quoted prices and other observable inputs for its instruments or for similar instruments, the Company determines the fair value of its credit derivative contracts primarily through internally developed, proprietary models that use both observable and unobservable market data inputs. There is no established market where financial guaranty insured credit derivatives are actively traded; therefore, management has determined that the exit market for the Company’s credit derivatives is a hypothetical one based on its entry market. Management has tracked the historical pricing of the Company’s transactions to establish historical price points in the hypothetical market that are used in the fair value calculation. These contracts are classified as Level 3 in the fair value hierarchy as there are multiple unobservable inputs deemed significant to the valuation model, most importantly the Company’s estimate of the value of the non-standard terms and conditions of its credit derivative contracts and how the Company’s

own credit spread affects the pricing of its transactions.

The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining premiums the Company expects to receive or pay and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay at the reporting date for the same protection. The fair value of the Company's credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Company's own credit risk and remaining contractual cash flows. The expected remaining contractual premium cash flows are the most readily observable inputs since they are based on the CDS contractual terms. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. Consistent with previous years, market conditions at December 31, 2018 were such that market prices of the Company's CDS contracts were not available.

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Assumptions and Inputs

The various inputs and assumptions that are key to the establishment of the Company's fair value for CDS contracts are as follows: the gross spread, the allocation of gross spread among the bank profit, net spread and hedge cost, and the weighted average life which is based on debt service schedules. The Company obtains gross spreads on its outstanding contracts from market data sources published by third parties (e.g., dealer spread tables for the collateral similar to assets within the Company's transactions), as well as collateral-specific spreads provided by trustees or obtained from market sources. The bank profit represents the profit the originator, usually an investment bank, realizes for structuring and funding the transaction; the net spread represents the premiums paid to the Company for the Company's credit protection provided; and the hedge cost represents the cost of CDS protection purchased by the originator to hedge its counterparty credit risk exposure to the Company.

With respect to CDS transactions for which there is an expected claim payment within the next twelve months, the allocation of gross spread reflects a higher allocation to the cost of credit rather than the bank profit component. In the current market, it is assumed that a bank would be willing to accept a lower profit on distressed transactions in order to remove these transactions from its financial statements.

Market sources determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. Management validates these quotes by cross-referencing quotes received from one market source against quotes received from another market source to ensure reasonableness. In addition, the Company compares the relative change in price quotes received from one quarter to another, with the relative change experienced by published market indices for a specific asset class. Collateral specific spreads obtained from third-party, independent market sources are un-published spread quotes from market participants or market traders who are not trustees. Management obtains this information as the result of direct communication with these sources as part of the valuation process. The following spread hierarchy is utilized in determining which source of gross spread to use.

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).
- Transactions priced or closed during a specific quarter within a specific asset class and specific rating. No transactions closed during the periods presented.
- Credit spreads interpolated based upon market indices adjusted to reflect the non-standard terms of the Company's CDS contracts.
- Credit spreads provided by the counterparty of the CDS.
- Credit spreads extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.

Information by Credit Spread Type (1)

	As of December 31, 2018	%	As of December 31, 2017	%
Based on actual collateral specific spreads	20	%	14	%
Based on market indices	33	%	48	%
Provided by the CDS counterparty	47	%	38	%

Total 100 % 100 %

(1) Based on par.

The rates used to discount future expected premium cash flows ranged from 2.47% to 2.89% at December 31, 2018 and 1.72% to 2.55% at December 31, 2017.

The premium the Company receives is referred to as the “net spread.” The Company’s pricing model takes into account not only how credit spreads on risks that it assumes affect pricing, but also how the Company’s own credit spread affects the pricing of its transactions. The Company’s own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market

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prices on CDS referencing AGC or AGM. For credit spreads on the Company's name the Company obtains the quoted price of CDS contracts traded on AGC and AGM from market data sources published by third parties. The cost to acquire CDS protection referencing AGC or AGM affects the amount of spread on CDS transactions that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGC or AGM increases, the amount of premium the Company retains on a transaction generally decreases. Due to the low volume and total net par of CDS contracts remaining in AGM's portfolio, changes in AGM's credit spreads do not significantly affect the fair value of these CDS contracts.

In the Company's valuation model, the premium the Company captures is not permitted to go below the minimum rate that the Company would currently charge to assume similar risks. This assumption can have the effect of mitigating the amount of unrealized gains that are recognized on certain CDS contracts. Given the current market conditions and the Company's own credit spreads, approximately 17% and 16% based on fair value, of the Company's CDS contracts were fair valued using this minimum premium as of December 31, 2018 and December 31, 2017, respectively. The percentage of transactions that price using the minimum premiums fluctuates due to changes in AGC's credit spreads. In general when AGC's credit spreads narrow, the cost to hedge AGC's name declines and more transactions price above previously established floor levels. Meanwhile, when AGC's credit spreads widen, the cost to hedge AGC's name increases causing more transactions to price at previously established floor levels. The Company corroborates the assumptions in its fair value model, including the portion of exposure to AGC and AGM hedged by its counterparties, with independent third parties each reporting period. The current level of AGC's and AGM's own credit spread has resulted in the bank or transaction originator hedging a portion of its exposure to AGC and AGM. This reduces the amount of contractual cash flows AGC and AGM can capture as premium for selling its protection.

The amount of premium a financial guaranty insurance market participant can demand is inversely related to the cost of credit protection on the insurance company as measured by market credit spreads assuming all other assumptions remain constant. This is because the buyers of credit protection typically hedge a portion of their risk to the financial guarantor, due to the fact that the contractual terms of the Company's contracts typically do not require the posting of collateral by the guarantor. The extent of the hedge depends on the types of instruments insured and the current market conditions.

A credit derivative liability on protection sold is the result of contractual cash inflows on in-force transactions that are less than what a hypothetical financial guarantor could receive if it sold protection on the same risk as of the reporting date. If the Company were able to freely exchange these contracts (i.e., assuming its contracts did not contain proscriptions on transfer and there was a viable exchange market), it would realize a loss representing the difference between the lower contractual premiums to which it is entitled and the current market premiums for a similar contract. The Company determines the fair value of its CDS contracts by applying the difference between the current net spread and the contractual net spread for the remaining duration of each contract to the notional value of its CDS contracts and taking the present value of such amounts discounted at the corresponding LIBOR over the weighted average remaining life of the contract.

Strengths and Weaknesses of Model

The Company's credit derivative valuation model, like any financial model, has certain strengths and weaknesses.

The primary strengths of the Company's CDS modeling techniques are:

- The model takes into account the transaction structure and the key drivers of market value.
- The model maximizes the use of market-driven inputs whenever they are available.

• The model is a consistent approach to valuing positions.

The primary weaknesses of the Company's CDS modeling techniques are:

• There is no exit market or any actual exit transactions; therefore, the Company's exit market is a hypothetical one based on the Company's entry market.

• There is a very limited market in which to validate the reasonableness of the fair values developed by the Company's model.

• The markets for the inputs to the model are highly illiquid, which impacts their reliability.

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- Due to the non-standard terms under which the Company enters into derivative contracts, the fair value of its credit derivatives may not reflect the same prices observed in an actively traded market of credit derivatives that do not contain terms and conditions similar to those observed in the financial guaranty market.

Fair Value Option on FG VIEs' Assets and Liabilities

The Company elected the fair value option for all the FG VIEs' assets and liabilities and classifies them as Level 3 in the fair value hierarchy. The prices are generally determined with the assistance of an independent third-party, based on a discounted cash flow approach. The FG VIEs issued securities collateralized by first lien and second lien RMBS as well as loans and receivables.

The fair value of the Company's FG VIEs' assets is generally sensitive to changes in estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to some of these inputs could have materially changed the market value of the FG VIEs' assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIEs' assets is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically could lead to a decrease in the fair value of FG VIEs' assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIEs' assets. The third-party utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithms designed to aggregate market color, received by the independent third-party, on comparable bonds.

The models to price the FG VIEs' liabilities used, where appropriate, the same inputs used in determining fair value of FG VIEs' assets and, for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest, taking into account the Company's own credit risk.

Significant changes to any of the inputs described above could have materially changed the timing of expected losses within the insured transaction which is a significant factor in determining the implied benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest for the tranches of debt issued by the FG VIEs that is insured by the Company. In general, extending the timing of expected loss payments by the Company into the future typically could lead to a decrease in the value of the Company's insurance and a decrease in the fair value of the Company's FG VIEs' liabilities with recourse, while a shortening of the timing of expected loss payments by the Company typically could lead to an increase in the value of the Company's insurance and an increase in the fair value of the Company's FG VIEs' liabilities with recourse.

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Amounts recorded at fair value in the Company's financial statements are presented in the tables below.

Fair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2018

	Fair Value Hierarchy			
	Fair Value Level 1	Level 2	Level 3	
	(in millions)			
Assets:				
Investment portfolio, available-for-sale (1):				
Fixed-maturity securities				
Obligations of state and political subdivisions	\$4,911	\$—	\$4,812	\$99
U.S. government and agencies	175	—	175	—
Corporate securities	2,136	—	2,080	56
Mortgage-backed securities:				
RMBS	982	—	673	309
Commercial mortgage-backed securities (CMBS)	539	—	539	—
Asset-backed securities	1,068	—	121	947
Non-U.S. government securities	278	—	278	—
Total fixed-maturity securities	10,089	—	8,678	1,411
Short-term investments	729	429	300	—
Other invested assets (2)	7	—	—	7
FG VIEs' assets, at fair value (3)	569	—	—	569
Other assets (3) (4)	139	25	38	76
Total assets carried at fair value	\$11,533	\$454	\$9,016	\$2,063
Liabilities:				
Credit derivative liabilities (3)	\$209	\$—	\$—	\$209
FG VIEs' liabilities with recourse, at fair value (5)	517	—	—	517
FG VIEs' liabilities without recourse, at fair value (3)	102	—	—	102
Total liabilities carried at fair value	\$828	\$—	\$—	\$828

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Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of December 31, 2017

	Fair Value Hierarchy			
	Fair Value Level 1	Level 2	Level 3	
	(in millions)			
Assets:				
Investment portfolio, available-for-sale (1):				
Fixed-maturity securities				
Obligations of state and political subdivisions	\$5,760	\$—	\$5,684	\$76
U.S. government and agencies	285	—	285	—
Corporate securities	2,018	—	1,951	67
Mortgage-backed securities:				
RMBS	861	—	527	334
CMBS	549	—	549	—
Asset-backed securities	896	—	109	787
Non-U.S. government securities	305	—	305	—
Total fixed-maturity securities	10,674	—	9,410	1,264
Short-term investments	627	464	162	1
Other invested assets (2)	7	—	—	7
FG VIEs' assets, at fair value (3)	700	—	—	700
Other assets (3) (4)	123	25	36	62
Total assets carried at fair value	\$12,131	\$489	\$9,608	\$2,034
Liabilities:				
Credit derivative liabilities (3)	\$271	\$—	\$—	\$271
FG VIEs' liabilities with recourse, at fair value (3)	627	—	—	627
FG VIEs' liabilities without recourse, at fair value (3)	130	—	—	130
Total liabilities carried at fair value	\$1,028	\$—	\$—	\$1,028

(1) Change in fair value is included in OCI.

Excludes investments of \$45 million as of December 31, 2017, measured using NAV per share with the change in (2) fair value recorded in the consolidated statements of operations, which were sold in 2018. Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.

(3) Change in fair value is included in the consolidated statements of operations.

(4) Includes credit derivative assets.

(5) Change in fair value attributable to ISCR is recorded in OCI with the remainder of the change in fair value recorded in the consolidated statements of operations.

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Changes in Level 3 Fair Value Measurements

The tables below present a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during the years ended December 31, 2018 and 2017.

Fair Value Level 3 Rollforward

Recurring Basis

Year Ended December 31, 2018

	Fixed-Maturity Securities						Credit Derivative Asset (Liability), net (5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value	
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset- Backed Securities	FG VIEs' Assets at Fair Value	Other (7)				
	(in millions)									
Fair value as of December 31, 2017	\$76	\$ 67	\$334	\$ 787	\$ 700	\$64	\$ (269)	\$ (627)	\$ (130)	
Total pretax realized and unrealized gains/(losses) recorded in: (1)										
Net income (loss)	3	(2)(14)	(2)21	(2)57	(2)2	(3)14	(4)112	(6)(1)	(3)4	(3)
Other comprehensive income (loss)	18	3	(17)	(40)	—	—	—	2	—	
Purchases	4	—	35	189	—	—	—	—	—	
Issuances	—	—	—	—	—	—	(68)	(8)—	—	
Settlements	(2)	—	(64)	(46)	(116)	(1)	18	108	8	
FG VIE deconsolidations	—	—	—	—	(17)	—	—	1	16	
Fair value as of December 31, 2018	\$99	\$ 56	\$309	\$ 947	\$ 569	\$77	\$ (207)	\$ (517)	\$ (102)	
Change in unrealized gains/(losses) included in earnings related to financial instruments held as of December 31, 2018					\$ 13	(3)\$ 14	(4)\$ 122	(6)\$ 1	(3)\$ 3	(3)
Change in unrealized gains/(losses) included in OCI related to financial instruments held as of December 31, 2018	\$18	\$ 3	\$(14)	\$(38)		\$—		\$ 2		

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Fair Value Level 3 Rollforward
Recurring Basis
Year Ended December 31, 2017

	Fixed-Maturity Securities				FG VIEs' Assets at Fair Value	Other (7)	Credit Derivative Asset (Liability), net (5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities					
	(in millions)								
Fair value as of December 31, 2016	\$39	\$ 60	\$365	\$ 805	\$ 876	\$65	\$(389)	\$(807)	\$(151)
MBIA UK Acquisition	—	—	—	7	—	—	—	—	—
Total pretax realized and unrealized gains/(losses) recorded in: (1)									
Net income (loss)	(13)	(2)6	(2)27	(2)113	(2)37	(3)(2)	(4)107	(6)(16)	(3)(6) (3)
Other comprehensive income (loss)	(2)	1	23	56	—	—	—	—	—
Purchases	—	—	42	173	—	1	—	—	—
Settlements	(2)	—	(123)	(367)	(147)	—	13	145	12
FG VIE consolidations	—	—	—	—	39	—	—	—	(39)
FG VIE deconsolidations	—	—	—	—	(105)	—	—	51	54
Transfers into Level 3	54	—	—	—	—	—	—	—	—
Fair value as of December 31, 2017	\$76	\$ 67	\$334	\$ 787	\$ 700	\$64	\$(269)	\$(627)	\$(130)
Change in unrealized gains/(losses) related to financial instruments held as of December 31, 2017	\$(2)	\$ 1	\$23	\$ 123	\$ 59	(3)\$(2)	(4)\$96	(6)\$(11)	(3)\$(6) (3)

Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains (1)(losses) from changes in values of those financial instruments only for the periods in which the instruments were classified as Level 3.

(2)Included in net realized investment gains (losses) and net investment income.

(3)Included in fair value gains (losses) on FG VIEs.

(4)Recorded in net investment income and other income.

Represents the net position of credit derivatives. Credit derivative assets (recorded in other assets) and credit (5) derivative liabilities (presented as a separate line item) are shown gross in the consolidated balance sheet based on net exposure by counterparty.

(6) Reported in net change in fair value of credit derivatives.

(7) Includes short-term investments, CCS and other invested assets.

(8) Relates to SGI Transaction. See Note 2, Assumption of Insured Portfolio and Business Combinations.

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Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs
At December 31, 2018

Financial Instrument Description(1)	Fair Value at December 2018 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$ 99	Yield	4.5 %-32.7%	12.0%
Corporate securities	56	Yield	29.5%	
RMBS	309	CPR	3.4 %-19.4%	6.2%
		CDR	1.5 %-6.9%	5.2%
		Loss severity	40.0 %-125.0%	82.7%
		Yield	5.3 %-8.1%	6.3%
Asset-backed securities:				
Triple-X life insurance transactions	620	Yield	6.5 %-7.1%	6.8%
Collateralized loan obligations (CLOs)/TruPS	274	Yield	3.8 %-4.7%	4.3%
Others	53	Yield	11.5%	
FG VIEs' assets, at fair value	569	CPR	0.9 %-18.1%	9.3%
		CDR	1.3 %-23.7%	5.1%
		Loss severity	60.0 %-100.0%	79.8%
		Yield	5.0 %-10.2%	7.1%
Other assets	74	Implied Yield Term (years)	6.6 %-7.2% 10 years	6.9%
Liabilities:				
Credit derivative liabilities, net	(207)	Year 1 loss estimates	0.0 %-66.0%	2.2%
		Hedge cost (in basis points (bps))	5.5 -82.5	23.3
		Bank profit (in bps)	7.2 -509.9	77.3
		Internal floor (in bps)	8.8 -30.0	19.0
		Internal credit rating	AAA -CCC	AA-
FG VIEs' liabilities, at fair value	(619)	CPR	0.9 %-18.1%	9.3%
		CDR	1.3 %-23.7%	5.1%
		Loss severity	60.0 %-100.0%	79.8%
		Yield	5.0 %-10.2%	5.6%

(1) Discounted cash flow is used as the primary valuation technique for all financial instruments listed in this table.

(2) Excludes several investments recorded in other invested assets with fair value of \$7 million.

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Quantitative Information About Level 3 Fair Value Inputs

At December 31, 2017

Financial Instrument Description(1)	Fair Value at December 31, 2017 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities :				
Obligations of state and political subdivisions	\$ 76	Yield	4.5 %-40.8%	12.5%
Corporate securities	67	Yield	22.5%	
RMBS	334	CPR	1.3 %-17.4%	6.4%
		CDR	1.5 %-9.2%	5.9%
		Loss severity	40.0 %-125.0%	82.5%
		Yield	4.0 %-7.5%	5.6%
Asset-backed securities:				
Triple-X life insurance transactions	613	Yield	6.2 %-6.4%	6.3%
CLO/TruPS	116	Yield	2.6 %-4.6%	3.3%
Others	58	Yield	10.7%	
FG VIEs' assets, at fair value	700	CPR	3.0 %-14.9%	9.5%
		CDR	1.3 %-21.7%	5.4%
		Loss severity	60.0 %-100.0%	79.6%
		Yield	3.7 %-10.0%	6.2%
Other assets	60	Implied Yield Term (years)	5.2 %-5.9% 10 years	5.5%
Liabilities:				
Credit derivative liabilities, net	(269)	Year 1 loss estimates	0.0 %-42.0%	3.3%
		Hedge cost (in bps)	17.6 -122.6	48.1
		Bank profit (in bps)	6.0 -852.5	107.5
		Internal floor (in bps)	8.0 -30.0	21.8
		Internal credit rating	AAA -CCC	AA-
FG VIEs' liabilities, at fair value	(757)	CPR	3.0 %-14.9%	9.5%
		CDR	1.3 %-21.7%	5.4%
		Loss severity	60.0 %-100.0%	79.6%
		Yield	3.4 %-10.0%	4.9%

(1) Discounted cash flow is used as the primary valuation technique for all financial instruments listed in this table.

(2) Excludes short-term investments with fair value of \$1 million and several investments recorded in other invested assets with fair value of \$7 million.

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Not Carried at Fair Value

Financial Guaranty Insurance Contracts

For financial guaranty insurance contracts that are acquired in a business combination, the Company measures each contract at fair value on the date of acquisition, and then follows insurance accounting guidance on a recurring basis thereafter. In addition, the Company discloses the fair value of its outstanding financial guaranty insurance contracts. In both cases, fair value is based on management's estimate of what a similarly rated financial guaranty insurance company would demand to acquire the Company's in-force book of financial guaranty insurance business. It is based on a variety of factors that may include pricing assumptions management has observed for portfolio transfers, commutations, and acquisitions that have occurred in the financial guaranty market, as well as prices observed in the credit derivative market with an adjustment for illiquidity so that the terms would be similar to a financial guaranty insurance contract, and also includes adjustments to the carrying value of unearned premium reserve for stressed losses, ceding commissions and return on capital. The Company classified this fair value measurement as Level 3.

Long-Term Debt

Long-term debt issued by AGUS and AGMH is valued by broker-dealers using third party independent pricing sources and standard market conventions. The market conventions utilize market quotations, market transactions for the Company's comparable instruments, and to a lesser extent, similar instruments in the broader insurance industry. The fair value measurement was classified as Level 2 in the fair value hierarchy.

The fair value of notes payable issued by AGM was determined by calculating the present value of the expected cash flows. The fair value measurement was classified as Level 3 in the fair value hierarchy.

The carrying amount and estimated fair value of the Company's financial instruments not carried at fair value are presented in the following table.

Fair Value of Financial Instruments Not Carried at Fair Value

	As of December 31, 2018	As of December 31, 2017		
	Carrying Amount (in millions)	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Other invested assets	\$1 \$ 2		\$ 8	\$ 9
Other assets (2)	130	130	97	97
Liabilities:				
Financial guaranty insurance contracts (1)	3,240	3,330	3,330	7,104
Long-term debt	1,233	1,233	1,292	1,627
Other liabilities (2)	12	12	55	55

(1) Carrying amount includes the assets and liabilities related to financial guaranty insurance contract premiums, losses, and salvage and subrogation and other recoverables net of reinsurance.

(2) The Company's other assets and other liabilities consist predominantly of accrued interest, receivables for securities sold and payables for securities purchased, for which the carrying value approximates fair value.

8. Contracts Accounted for as Credit Derivatives

The Company has a portfolio of financial guaranty contracts that meet the definition of a derivative in accordance with GAAP (primarily CDS). The credit derivative portfolio also includes interest rate swaps.

Credit derivative transactions are governed by ISDA documentation and have certain characteristics that differ from financial guaranty insurance contracts. 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 contract. In addition, there

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are more circumstances under which the Company may be obligated to make payments. Similar to a financial guaranty insurance contract, the Company would be obligated to pay if the obligor failed to make a scheduled payment of principal or interest in full. However, the Company may also be required to pay if the obligor becomes bankrupt or if the reference obligation were restructured if, after negotiation, those credit events are specified in the documentation for the credit derivative transactions. Furthermore, the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be required to make a termination payment to its swap counterparty upon such termination. Absent such an event of default or termination event, the Company may not unilaterally terminate a CDS contract; however, the Company on occasion has mutually agreed with various counterparties to terminate certain CDS transactions.

Accounting Policy

Credit derivatives are recorded at fair value. Changes in fair value are recorded in “net change in fair value of credit derivatives” on the consolidated statement of operations. Realized gains (losses) and other settlements on credit derivatives include credit derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts, premiums paid and payable for credit protection the Company has purchased, claims paid and payable and received and receivable related to insured credit events under these contracts, ceding commission expense or income and any realized gains or losses on termination. The fair value of credit derivatives is reflected as either net assets or net liabilities determined on a contract by contract basis in the Company's consolidated balance sheets. See Note 7, Fair Value Measurement, for a discussion on the fair value methodology for credit derivatives.

Credit Derivative Net Par Outstanding by Sector

The components of the Company's credit derivative net par outstanding are presented in the table below. The increase in credit derivative net par outstanding from year-end 2017 was a result of the June 1, 2018 SGI Transaction discussed in Note 2, Assumption of Insured Portfolio and Business Combinations. As part of that transaction, the Company reinsured SGI's insurance of credit derivatives within its portfolio, primarily infrastructure finance and regulated utility transactions, with a net par of \$1.5 billion and a credit derivative liability of \$68 million. The credit derivatives assumed from SGI have no expected losses. The estimated remaining weighted average life of credit derivatives was 11.6 years at December 31, 2018 and 11.7 years at December 31, 2017.

Credit Derivatives (1)

Asset Type	As of December 31, 2018		As of December 31, 2017	
	Net Par Outstanding	Net Fair Value	Net Par Outstanding	Net Fair Value
	(in millions)			
Pooled infrastructure	\$1,373	\$(34)	\$1,561	\$(42)
Infrastructure finance	1,300	(63)	572	(36)
Regulated utilities	1,096	(11)	548	(10)
Pooled corporate obligations (TruPS collateralized debt obligations (CDOs))	642	(28)	878	(72)
U.S. RMBS	641	(31)	916	(53)

Other (2)	1,130	(40)	1,732	(56)
Total	\$6,182	\$(207)	\$6,207	\$(269)

(1) Expected recoveries were \$2 million as of December 31, 2018 and \$14 million as of December 31, 2017.

(2) This represents numerous transactions across various asset classes, such as health care revenue, municipal utilities and consumer receivables.

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Distribution of Credit Derivative Net Par Outstanding by Internal Rating

Ratings	As of December 31, 2018			As of December 31, 2017		
	Net Par Outstanding	% of Total		Net Par Outstanding	% of Total	
	(dollars in millions)					
AAA	\$1,813	29.4	%	\$2,144	34.6	%
AA	1,690	27.3		1,170	18.8	
A	1,171	18.9		1,517	24.5	
BBB	1,351	21.9		1,038	16.7	
BIG (1)	157	2.5		338	5.4	
Credit derivative net par outstanding	\$6,182	100.0	%	\$6,207	100.0	%

(1) BIG relates to U.S. RMBS exposures as of December 31, 2018 and both, U.S. RMBS and TruPS CDOs as of December 31, 2017.

Fair Value of Credit Derivatives

Net Change in Fair Value of Credit Derivative Gain (Loss)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Realized gains on credit derivatives	\$9	\$17	\$56
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(25)	(27)	(27)
Realized gains (losses) and other settlements	(16)	(10)	29
Net unrealized gains (losses)	128	121	69
Net change in fair value of credit derivatives	\$112	\$111	\$98

During 2018, unrealized fair value gains were primarily generated by CDS terminations, run-off of CDS par and price improvements on the underlying collateral of the Company's CDS. In addition, unrealized fair value gains were generated by the increase in credit given to the primary insurer on one of the Company's second-to-pay CDS policies during the period. The unrealized fair value gains were partially offset by unrealized fair value losses resulting from wider implied net spreads driven by the decreased cost to buy protection in AGC's and AGM's name, as the market cost of AGC's and AGM's credit protection decreased during the period. For those CDS transactions that were pricing at or above their floor levels, when the cost of purchasing CDS protection on AGC and AGM, which management refers to as the CDS spread on AGC and AGM, decreased the implied spreads that the Company would expect to receive on these transactions increased.

During 2017 and 2016, unrealized fair value gains were primarily generated by CDS terminations, run-off of net par outstanding, and price improvements on the underlying collateral of the Company's CDS. The majority of the CDS transactions that were terminated were as a result of settlement agreements with several CDS counterparties. In 2016, the unrealized fair value gains were partially offset by unrealized losses resulting from wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, as

the market cost of AGC's and AGM's credit protection decreased significantly during the period. During 2017, the cost to buy protection in AGC's and AGM's name, specifically the five-year CDS spread, did not change materially during the period, and therefore did not have a material impact on the Company's unrealized fair value gains and losses on CDS.

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The following table summarizes the effects of terminations and settlements of credit derivative contracts.

Terminations and Settlements
of Direct Credit Derivative Contracts

	Year Ended		
	December 31,		
	2018	2017	2016
	(in millions)		
Net par of terminated credit derivative contracts	\$601	\$331	\$3,811
Realized gains (losses) and other settlements	1	(15)	20
Net unrealized gains (losses) on credit derivatives	5	26	103

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 structural 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 and AGM. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date.

CDS Spread on AGC and AGM

Quoted price of CDS contract (in bps)

	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
Five-year CDS spread:			
AGC	110	163	158
AGM	116	145	158
One-year CDS spread			
AGC	22	70	35
AGM	24	28	29

Fair Value of Credit Derivative Assets (Liabilities)
and Effect of AGC and AGM
Credit Spreads

	As of December 31, 2018	As of December 31, 2017	
	(in millions)		
Fair value of credit derivatives before effect of AGC and AGM credit spreads	\$(407)	\$ (555)	
Plus: Effect of AGC and AGM credit spreads	200	286	
Net fair value of credit derivatives	\$(207)	\$ (269)	

The fair value of CDS contracts at December 31, 2018, before considering the implications of AGC's and AGM's credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets and ratings downgrades. Offsetting the benefit attributable to AGC's and AGM's credit spread were higher credit spreads in the fixed income security markets. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the TruPS CDO, pooled infrastructure, and infrastructure finance markets as well as continuing market concerns over the 2005-2007 vintages of RMBS.

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Collateral Posting for Certain Credit Derivative Contracts

The transaction documentation with one counterparty for \$250 million of CDS par insured by AGC requires AGC to post collateral, subject to a \$250 million cap, to secure its obligation to make payments under such contracts. Eligible collateral is generally cash or U.S. government or agency securities; eligible collateral other than cash is valued at a discount to the face amount. The table below summarizes AGC's CDS collateral posting requirements as of December 31, 2018 and December 31, 2017.

AGC Insured CDS Collateral Posting Requirements

	As of December 31, 2018	As of December 31, 2017
	(in millions)	
Gross par of CDS with collateral posting requirement	\$ 250	\$ 497
Maximum posting requirement	250	464
Collateral posted	1	18

In the first quarter of 2018, the Company terminated all of the CDS contracts with a counterparty as to which it had collateral posting obligations, and the collateral that the Company had been posting to that counterparty was all returned to the Company. The Company still has collateral posting obligations with respect to one counterparty.

9. Variable Interest Entities

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs but does not act as the servicer or collateral manager for any VIE obligations guaranteed by its insurance subsidiaries. The transaction structure generally provides certain financial protections to the Company. This financial protection can take several forms, the most common of which are overcollateralization, first loss protection (or subordination) and excess spread. In the case of overcollateralization (i.e., the principal amount of the securitized assets exceeds the principal amount of the structured finance obligations guaranteed by the Company), the structure allows defaults of the securitized assets before a default is experienced on the structured finance obligation guaranteed by the Company. In the case of first loss, the Company's financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by VIEs. The first loss exposure with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the financial assets contributed to VIEs, generate interest income that are in excess of the interest payments on the debt issued by the VIE. Such excess spread is typically distributed through the transaction's cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the VIEs (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

Assured Guaranty is not primarily liable for the debt obligations issued by the VIEs it insures and would only be required to make payments on those insured debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due and only for the amount of the shortfall. AGL's and its subsidiaries' creditors do not have any rights with regard to the collateral supporting the debt issued by the FG VIEs. Proceeds from sales, maturities, prepayments and interest from such underlying collateral may only be used to pay debt service on FG VIEs' liabilities. Net fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the FG VIEs' debt, except for net premiums received and net claims paid by Assured Guaranty under the financial guaranty insurance contract. The Company's estimate of expected loss to be paid for FG VIEs is included in Note 5, Expected Loss to be Paid.

Accounting Policy

The Company evaluates whether it is the primary beneficiary of its VIEs. If the Company concludes that it is the primary beneficiary, it is required to consolidate the entire VIE in the Company's financial statements and eliminate the effects of the financial guaranty insurance contracts issued by AGM and AGC on the consolidated FG VIEs' debt obligations.

The primary beneficiary of a VIE is the enterprise that has both 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

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As part of the terms of its financial guaranty contracts, the Company, under its insurance contract, obtains certain protective rights with respect to the VIE that give the Company additional controls over a VIE. These protective rights are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer or collateral manager's financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company's control of the VIE typically increases. The Company continuously evaluates its power to direct the activities that most significantly impact the economic performance of VIEs that have debt obligations insured by the Company and, accordingly, where the Company is obligated to absorb VIE losses or receive benefits that could potentially be significant to the VIE. The Company is deemed to be the control party for certain VIEs under GAAP, typically when its protective rights give it the power to both terminate and replace the deal servicer, which are characteristics specific to the Company's financial guaranty contracts. If the protective rights that could make the Company the control party have not been triggered, then the VIE is not consolidated. If the Company is deemed no longer to have those protective rights, the VIE is deconsolidated.

The FG VIEs' liabilities that are insured by the Company are considered to be with recourse, because the Company guarantees the payment of principal and interest regardless of the performance of the related FG VIEs' assets. FG VIEs' liabilities that are not insured by the Company are considered to be without recourse, because the payment of principal and interest of these liabilities is wholly dependent on the performance of the FG VIEs' assets.

The Company has limited contractual rights to obtain the financial records of its consolidated FG VIEs. The FG VIEs do not prepare separate GAAP financial statements; therefore, the Company compiles GAAP financial information for them based on trustee reports prepared by and received from third parties. Such trustee reports are not available to the Company until approximately 30 days after the end of any given period. The time required to perform adequate reconciliations and analyses of the information in these trustee reports results in a one quarter lag in reporting the FG VIEs' activities. The Company records the fair value of FG VIEs' assets and liabilities based on modeled prices. The Company updates the model assumptions each reporting period for the most recent available information, which incorporates the impact of material events that may have occurred since the quarter lag date. The net change in the fair value of consolidated FG VIEs' assets and liabilities is recorded in "fair value gains (losses) on FG VIEs" in the consolidated statements of operations, except for change in fair value of FG VIEs' liabilities with recourse caused by changes in ISCR which is now separately presented in OCI, effective January 1, 2018 as described below. Interest income and interest expense are derived from the trustee reports and also included in "fair value gains (losses) on FG VIEs." The Company has elected the fair value option for assets and liabilities classified as FG VIEs' assets and liabilities because the carrying amount transition method was not practical.

The cash flows generated by the FG VIEs' assets are classified as cash flows from investing activities. Paydowns of FG liabilities are supported by the cash flows generated by FG VIEs' assets, and for liabilities with recourse, possibly claim payments made by AGM or AGC under its financial guaranty insurance contracts. Paydowns of FG liabilities both with and without recourse are classified as cash flows used in financing activities. Interest income, interest expense and other expenses of the FG VIEs' assets and liabilities are classified as operating cash flows. Claim payments made by AGC and AGM under the financial guaranty contracts issued to the FG VIEs are eliminated upon consolidation and therefore such claim payments are treated as paydowns of FG VIEs' liabilities as a financing activity as opposed to an operating activity of AGM and AGC.

Adoption of ASU 2016-01

Amendments under ASU 2016-01 apply to the Company's FG VIEs' liabilities which the Company had historically elected to measure through the consolidated statements of operations in "fair value gains (losses) on FG VIEs" under the fair value option. For FG VIEs' liabilities with recourse, the portion of the change in fair value caused by changes in ISCR must now be separately presented in OCI as opposed to the consolidated statements of operations.

The inception to date change in fair value of the FG VIEs' liabilities with recourse attributable to the ISCR is calculated by holding all current period assumptions constant for each security and isolating the effect of the change in the Company's CDS spread from the most recent date of consolidation to the current period. In general, if the Company's CDS spread tightens, more value will be assigned to the Company's credit; however, if the Company's CDS widens, less value is assigned to the Company's credit.

On adoption of ASU 2016-01, the Company reclassified a loss of approximately \$33 million, net of tax, from retained earnings to AOCI. This amount represents the portion of the fair value of the FG VIEs' liabilities with recourse that related to the change in the Company's own credit risk from the date of consolidation through January 1, 2018. The accounting and disclosure of the FG VIEs' liabilities without recourse are unchanged.

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Consolidated FG VIEs

Number of FG VIEs Consolidated

	Year Ended December 31, 2018 2017 2016		
Beginning of year	32	32	34
Consolidated	—	2	1
Deconsolidated	(1)	(2)	(2)
Matured	—	—	(1)
December 31	31	32	32

The total unpaid principal balance for the FG VIEs' assets that were over 90 days or more past due was approximately \$71 million at December 31, 2018 and \$99 million at December 31, 2017. The aggregate unpaid principal of the FG VIEs' assets was approximately \$350 million greater than the aggregate fair value at December 31, 2018. The aggregate unpaid principal of the FG VIEs' assets was approximately \$361 million greater than the aggregate fair value at December 31, 2017.

The change in the instrument-specific credit risk of the FG VIEs' assets held as of December 31, 2018 that was recorded in the consolidated statements of operations for 2018 was a gain of \$7 million. The change in the ISCR of the FG VIEs' assets was a gain of \$35 million for 2017 and a gain of \$55 million for 2016. To calculate ISCR, the change in the fair value of the FG VIEs' assets is allocated between changes that are due to ISCR and changes due to other factors, including interest rates. The ISCR amount is determined by using expected cash flows at the date of consolidation less current expected cash flows discounted at original contractual rate. The net present value is calculated by discounting the expected cash flows of the underlying security, at the relevant effective interest rate.

The unpaid principal for FG VIEs' liabilities with recourse, which represent obligations insured by AGC or AGM, was \$565 million and \$674 million as of December 31, 2018 and December 31, 2017, respectively. FG VIEs' liabilities with recourse will mature at various dates ranging from 2018 to 2038. The aggregate unpaid principal balance of the FG VIEs' liabilities with recourse was approximately \$48 million greater than the aggregate fair value of the FG VIEs' liabilities with recourse as of both December 31, 2018 and December 31, 2017. The aggregate unpaid principal balance of the FG VIEs' liabilities without recourse was approximately \$28 million and \$25 million greater than the aggregate fair value of the FG VIEs' liabilities without recourse as of December 31, 2018 and December 31, 2017, respectively. See Consolidated Statements of Comprehensive Income and Note 20, Other Comprehensive Income, for information on changes in fair value of the FG VIEs' liabilities with recourse that is attributable to changes in the Company's own credit risk.

The table below shows the carrying value of the consolidated FG VIEs' assets and liabilities in the consolidated financial statements, segregated by the types of assets that collateralize the respective debt obligations for FG VIEs' liabilities with recourse.

Consolidated FG VIEs

By Type of Collateral

	As of December 31,	As of December 31,
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	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
With recourse:				
U.S. RMBS first lien	\$299	\$ 326	\$ 362	\$ 385
U.S. RMBS second lien	115	137	144	177
Manufactured housing	53	54	64	65
Total with recourse	467	517	570	627
Without recourse	102	102	130	130
Total	\$569	\$ 619	\$ 700	\$ 757

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The effects of consolidating FG VIEs includes (i) changes in fair value gains (losses) on FG VIEs' assets and liabilities, (ii) the elimination of premiums and losses related to the AGC and AGM FG VIEs' liabilities with recourse and (iii) the elimination of investment balances related to the Company's purchase of AGC and AGM insured FG VIEs' debt. Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. Such eliminations are included in the table below to present the full effect of consolidating FG VIEs.

Effect of Consolidating FG VIEs

	Year Ended		
	December 31,		
	2018	2017	2016
	(in millions)		
Net earned premiums	\$(12)	\$(15)	\$(16)
Net investment income	(4)	(5)	(10)
Net realized investment gains (losses)	—	—	1
Fair value gains (losses) on FG VIEs	14	30	38
Loss and LAE	(3)	7	7
Effect on income before tax	(5)	17	20
Less: tax provision (benefit)	(1)	6	7
Effect on net income (loss)	\$(4)	\$11	\$13
Effect on OCI	\$2	\$(1)	\$1
Effect on cash flows from operating activities	\$11	\$19	\$24

	As of	
	December 31,	
	2018	2017
	(in millions)	
Effect on shareholders' equity (decrease) increase	\$ 1	\$ 2

For all periods presented, the primary driver of the gain in fair value of FG VIEs' assets and FG VIEs' liabilities was an increase in the value of the FG VIEs' assets resulting from improvement in the underlying collateral.

Other Consolidated VIEs

In certain instances where the Company consolidates a VIE that was established as part of a loss mitigation negotiated settlement that results in the termination of the original insured financial guaranty insurance or credit derivative contract, the Company classifies the assets and liabilities of those VIEs in the line items that most accurately reflect the nature of the items, as opposed to within the FG VIEs' assets and FG VIEs' liabilities. The largest of these VIEs had assets of \$87 million and liabilities of \$21 million as of December 31, 2018 and assets of \$86 million and liabilities of \$41 million as of December 31, 2017.

Non-Consolidated VIEs

As described in Note 4, Outstanding Exposure, the Company monitors all policies in the insured portfolio. Of the approximately 19 thousand policies monitored as of December 31, 2018, approximately 16 thousand policies are not

within the scope of ASC 810 because these financial guaranties relate to the debt obligations of governmental organizations or financing entities established by a governmental organization. The majority of the remaining policies involve transactions where the Company is not deemed to currently have control over the FG VIEs' most significant activities. As of December 31, 2018 and 2017, the Company identified 110 and 99 policies, respectively, that contain provisions and experienced events that may trigger consolidation. Based on management's assessment of these potential triggers or events, the Company consolidated 31 and 32 FG VIEs as of December 31, 2018 and December 31, 2017, respectively. The Company's exposure provided through its financial guaranties with respect to debt obligations of FG VIEs is included within net par outstanding in Note 4, Outstanding Exposure.

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10. Investments and Cash

Accounting Policy

The vast majority of the Company's investment portfolio consists of fixed-maturity and short-term investments, classified as available-for-sale at the time of purchase (approximately 99.5% based on fair value as of December 31, 2018), and therefore carried at fair value. Changes in fair value for other-than-temporarily-impaired securities are bifurcated between credit losses and non-credit changes in fair value. The credit loss on other-than-temporarily-impaired securities is recorded in the statement of operations and the non-credit component of the change in fair value of securities is recorded in OCI. For securities in an unrealized loss position where the Company has the intent to sell or it is more-likely-than-not that it will be required to sell the security before recovery, the entire impairment loss (i.e., the difference between the security's fair value and its amortized cost) is recorded in the consolidated statements of operations. Credit losses reduce the amortized cost of impaired securities. The amortized cost basis is adjusted for accretion and amortization (using the effective interest method) with a corresponding entry recorded in net investment income.

Realized gains and losses on sales of investments are determined using the specific identification method. Realized loss includes amounts recorded for other-than-temporary impairments (OTTI) on debt securities and the declines in fair value of securities for which the Company has the intent to sell the security or inability to hold until recovery of amortized cost.

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 due to changes in effective yields and maturities are recognized in net investment income using the retrospective method.

Loss mitigation securities are generally purchased at a discount and are accounted for based on their underlying investment type, excluding the effects of the Company's insurance. Interest income on loss mitigation securities is recognized on a level yield basis over the remaining life of the security.

Short-term investments, which are those investments with a maturity of less than one year at time of purchase, are carried at fair value and include amounts deposited in money market funds.

Other invested assets, as of December 31, 2018, primarily include an investment in the limited partnership interest of a fund that invests in the equity of private equity managers and a minority interest in an independent investment advisory firm specializing in separately managed accounts, both of which are accounted for under the equity method. See "Adoption of ASU 2016-01" below.

Cash consists of cash on hand and demand deposits. As a result of the lag in reporting FG VIEs, cash and short-term investments do not reflect cash outflow to the holders of the debt issued by the FG VIEs for claim payments made by the Company's insurance subsidiaries to the consolidated FG VIEs until the subsequent reporting period.

Assessment for Other-Than Temporary Impairments

The Company has a formal review process to determine OTTI for securities in its investment portfolio where there is no intent to sell and it is not more-likely-than-not that it will be required to sell the security before recovery. 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 loss of investment principal is anticipated;
- the impact of foreign exchange rates; and
- whether scheduled interest payments are past due.

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The Company assesses the ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. If the security is in an unrealized loss position and its net present value is less than the amortized cost of the investment, an OTTI is recorded. The net present value is calculated by discounting the Company's estimate of projected future cash flows at the effective interest rate implicit in the debt security at the time of purchase. The Company's estimates of projected future cash flows are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company develops these estimates using information based on historical experience, credit analysis and market observable data, such as industry analyst reports and forecasts, sector credit ratings and other relevant data. For mortgage backed and asset backed securities, cash flow estimates also include prepayment and other assumptions regarding the underlying collateral such as default rates, recoveries and changes in value. The assumptions used in these projections require the use of significant management judgment.

In addition to the factors noted above, the Company also seeks advice from its outside investment managers. 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.

Adoption of ASU 2016-01

Up until December 31, 2017, the change in fair value of preferred stock investments and certain other equity investments was recorded in OCI. Effective January 1, 2018, in accordance with ASU 2016-01, the change in fair value of these investments is recorded in other income in the consolidated statements of operations. Upon adoption of this section of ASU 2016-01, the Company reclassified a loss of approximately \$1 million, net of tax, from AOCI to retained earnings. See also Note 9, Variable Interest Entities, for the effect of this ASU on FG VIEs.

In addition, in accordance with ASU 2016-01, the Company elected the new measurement alternative for equity securities that were accounted for under the cost method as of December 31, 2017 because they did not have a readily determinable fair value. Effective January 1, 2018, these equity securities are accounted at cost less any impairment, plus or minus the change resulting from observable price changes in orderly transactions for identical or a similar investment of the same issuer in the consolidated statements of operations.

Net Investment Income and Realized Gains (Losses)

Net investment income is a function of the yield that the Company earns on invested assets and the size of the portfolio. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the invested assets. Accrued investment income, which is recorded in Other Assets, was \$91 million and \$97 million as of December 31, 2018 and December 31, 2017, respectively.

Net Investment Income

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Income from fixed-maturity securities managed by third parties	\$297	\$298	\$306
Income from internally managed securities (1)	110	129	111
Gross investment income	407	427	417
Investment expenses	(9)	(9)	(9)
Net investment income	\$398	\$418	\$408

(1) Year ended December 31, 2017 included accretion on Zohar II Notes used as consideration for the MBIA UK Acquisition. See Note 2, Assumption of Insured Portfolio and Business Combinations.

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The table below presents the components of net realized investment gains (losses).

Net Realized Investment Gains (Losses)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Gross realized gains on available-for-sale securities (1)	\$20	\$95	\$28
Gross realized losses on available-for-sale securities	(12)	(12)	(8)
Net realized gains (losses) on other invested assets	(1)	—	2
OTTI:			
Total OTTI	(35)	(33)	(47)
Less: portion of OTTI recognized in OCI	4	10	4
Net OTTI recognized in net income (loss) (2)	(39)	(43)	(51)
Net realized investment gains (losses)	\$(32)	\$40	\$(29)

(1) Year ended December 31, 2017 included a gain on Zohar II Notes used as consideration for the MBIA UK Acquisition. See Note 2, Assumption of Insured Portfolio and Business Combinations.

(2) Net OTTI recognized in net income (loss) was primarily a result of a decline in expected cash flows on loss mitigation securities.

The proceeds from sales of fixed-maturity securities available-for-sale were \$1,180 million, \$1,701 million and \$1,365 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company recorded a gain on change in fair value of equity securities in other income of \$27 million for the year ended December 31, 2018, which includes a gain of \$31 million related to the Company's minority interest in the parent company of TMC Bonds LLC, which it sold in 2018.

The following table presents the roll-forward of the credit losses on fixed-maturity securities for which the Company has recognized an OTTI and for which unrealized loss was recognized in OCI.

Roll Forward of Credit Losses
in the Investment Portfolio

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Balance, beginning of period	\$162	\$134	\$108
Additions for credit losses on securities for which an OTTI was not previously recognized	—	13	3
Reductions for securities sold and other settlements	—	(4)	(4)
Additions for credit losses on securities for which an OTTI was previously recognized	23	19	27
Balance, end of period	\$185	\$162	\$134

Investment Portfolio

As of December 31, 2018, the majority of the investment portfolio is managed by seven outside managers (including Wasmer, Schroeder & Company LLC, in which the Company has a minority interest). The Company has established detailed guidelines regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector. The Company's investment guidelines generally do not permit its outside managers to purchase securities rated lower than A- by S&P or A3 by Moody's, excluding an allocation not to exceed 5% of the aggregate externally managed portfolio, to corporate securities not rated lower than BBB by S&P or Baa2 by Moody's.

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The investment portfolio tables shown below include assets managed both externally and internally. The internally managed portfolio primarily consists of the Company's investments in securities for (i) loss mitigation purposes, (ii) other risk management purposes and (iii) other alternative investments that the Company believes present an attractive investment opportunity. One of the Company's strategies for mitigating losses has been to purchase loss mitigation securities, at discounted prices. The Company also holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of the financial guaranties (other risk management assets).

Alternative investments include various funds investing in both equity and debt securities, including catastrophe bonds (until redemption in 2018) as well as investments in investment managers. In February 2017 the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers of which \$83 million remains to be invested as of December 31, 2018.

Investment Portfolio
Carrying Value

	As of December 31, 2018 2017 (in millions)	
Fixed-maturity securities (1):		
Externally managed	\$8,909	\$9,443
Internally managed	1,180	1,231
Short-term investments	729	627
Other invested assets:		
Internally managed		
Alternative investments	39	69
Other	16	25
Total	\$10,873	\$11,395

(1) 10.8% and 10.5% of fixed-maturity securities are rated BIG as of December 31, 2018 and December 31, 2017, respectively.

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Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2018

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI Gain (Loss) on Securities with OTTI (2)	Weighted Average Credit Rating (3)
(dollars in millions)							
Fixed-maturity securities:							
Obligations of state and political subdivisions	45 %	\$ 4,761	\$ 168	\$ (18)	\$ 4,911	\$ 40	AA-
U.S. government and agencies	2	167	9	(1)	175	—	AA+
Corporate securities	20	2,175	13	(52)	2,136	(4)	A
Mortgage-backed securities(4):	—						
RMBS	9	999	17	(34)	982	(15)	A-
CMBS	5	542	4	(7)	539	—	AAA
Asset-backed securities	9	942	131	(5)	1,068	97	BB
Non-U.S. government securities	3	298	2	(22)	278	—	AA
Total fixed-maturity securities	93	9,884	344	(139)	10,089	118	A+
Short-term investments	7	729	—	—	729	—	AAA
Total investment portfolio	100%	\$ 10,613	\$ 344	\$ (139)	\$ 10,818	\$ 118	A+

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Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2017

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI Gain (Loss) on Securities with OTTI (2)	Weighted Average Credit Rating (3)
(dollars in millions)							
Fixed-maturity securities:							
Obligations of state and political subdivisions	51 %	\$ 5,504	\$ 267	\$ (11)	\$ 5,760	\$ 23	AA
U.S. government and agencies	2	272	14	(1)	285	—	AA+
Corporate securities	18	1,973	63	(18)	2,018	(6)	A
Mortgage-backed securities(4):							
RMBS	8	852	26	(17)	861	(1)	BBB+
CMBS	5	540	12	(3)	549	—	AAA
Asset-backed securities	7	730	166	—	896	136	B
Non-U.S. government securities	3	316	6	(17)	305	—	AA
Total fixed-maturity securities	94	10,187	554	(67)	10,674	152	A+
Short-term investments	6	627	—	—	627	—	AAA
Total investment portfolio	100%	\$ 10,814	\$ 554	\$ (67)	\$ 11,301	\$ 152	A+

(1)Based on amortized cost.

(2)See Note 20, Other Comprehensive Income.

Ratings in the tables above represent the lower of the Moody's and S&P classifications except for bonds purchased (3)for loss mitigation or risk management strategies, which use internal ratings classifications. The Company's portfolio primarily consists of high-quality, liquid instruments.

(4) U.S. government-agency obligations were approximately 48% of mortgage backed securities as of December 31, 2018 and 39% as of December 31, 2017 based on fair value.

The Company's investment portfolio in tax-exempt and taxable municipal securities includes issuances by a wide number of municipal authorities across the U.S. and its territories.

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The following tables present the fair value of the Company's available-for-sale portfolio of obligations of state and political subdivisions as of December 31, 2018 and December 31, 2017 by state.

Fair Value of Available-for-Sale Portfolio of
Obligations of State and Political Subdivisions
As of December 31, 2018 (1)

State	State General Obligation (in millions)	Local General Obligation (in millions)	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
New York	\$5	\$ 49	\$ 492	\$546	\$ 536	AA
Texas	19	170	344	533	520	AA
California	63	77	378	518	482	A
Washington	80	81	193	354	349	AA
Florida	8	13	220	241	236	A+
Massachusetts	75	—	144	219	211	AA
Illinois	16	55	127	198	192	A
Pennsylvania	35	5	98	138	136	A+
District of Columbia	41	—	92	133	131	AA
Georgia	10	10	94	114	110	AA-
All others	96	210	1,103	1,409	1,369	AA-
Total	\$448	\$ 670	\$ 3,285	\$4,403	\$ 4,272	AA-

Fair Value of Available-for-Sale Portfolio of
Obligations of State and Political Subdivisions
As of December 31, 2017 (1)

State	State General Obligation (in millions)	Local General Obligation (in millions)	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
New York	\$13	\$ 44	\$ 568	\$625	\$ 598	AA
California	76	83	421	580	527	A
Texas	17	212	321	550	528	AA
Washington	93	87	214	394	381	AA
Florida	5	17	244	266	254	AA-
Massachusetts	70	—	151	221	208	AA
Illinois	18	51	131	200	189	A
Ohio	16	22	102	140	136	AA
Pennsylvania	33	21	76	130	125	A+
District of Columbia	43	—	85	128	123	AA
All others	138	263	1,233	1,634	1,577	AA-
Total	\$522	\$ 800	\$ 3,546	\$4,868	\$ 4,646	AA-

Excludes \$508 million and \$892 million as of December 31, 2018 and 2017, respectively, of pre-refunded bonds, (1) at fair value. The credit ratings are based on the underlying ratings and do not include any benefit from bond insurance.

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The revenue bond portfolio primarily consists of essential service revenue bonds issued by transportation authorities and other utilities, water and sewer authorities and universities.

Revenue Bonds
Sources of Funds

Type	As of December 31, 2018		As of December 31, 2017	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in millions)			
Transportation	\$967	\$ 925	\$955	\$ 889
Water and sewer	580	566	670	641
Higher education	557	543	515	492
Tax backed	471	458	600	570
Municipal utilities	287	267	324	315
Healthcare	278	270	308	293
All others	145	143	174	169
Total	\$3,285	\$ 3,172	\$3,546	\$ 3,369

The following tables summarize, for all fixed-maturity securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2018

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	\$195	\$ (4)	\$ 658	\$ (14)	\$853	\$ (18)
U.S. government and agencies	11	—	24	(1)	35	(1)
Corporate securities	836	(19)	522	(33)	1,358	(52)
Mortgage-backed securities:						
RMBS	85	(2)	447	(32)	532	(34)
CMBS	111	(1)	164	(6)	275	(7)
Asset-backed securities	322	(4)	38	(1)	360	(5)
Non-U.S. government securities	83	(4)	99	(18)	182	(22)
Total	\$1,643	\$ (34)	\$ 1,952	\$ (105)	\$3,595	\$ (139)
Number of securities (1)		417		608		997
Number of securities with OTTI (1)		22		22		42

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Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2017

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	\$ 166	\$ (4)	\$ 281	\$ (7)	\$ 447	\$ (11)
U.S. government and agencies	151	—	18	(1)	169	(1)
Corporate securities	201	(1)	240	(17)	441	(18)
Mortgage-backed securities:						
RMBS	191	(5)	213	(12)	404	(17)
CMBS	29	—	80	(3)	109	(3)
Asset-backed securities	48	—	3	—	51	—
Non-U.S. government securities	20	—	140	(17)	160	(17)
Total	\$ 806	\$ (10)	\$ 975	\$ (57)	\$ 1,781	\$ (67)
Number of securities (1)		244		264		499
Number of securities with OTTI (1)		17		15		31

The number of securities does not add across because lots consisting of the same securities have been purchased at (1) different times and appear in both categories above (i.e., less than 12 months and 12 months or more). If a security appears in both categories, it is counted only once in the total column.

Of the securities in an unrealized loss position for 12 months or more as of December 31, 2018, 38 securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of December 31, 2018 was \$43 million. As of December 31, 2017, of the securities in an unrealized loss position for 12 months or more, 28 securities had unrealized losses greater than 10% of book value with an unrealized loss of \$27 million. The Company considered the credit quality, cash flows, interest rate movements, ability to hold a security to recovery and intent to sell a security in determining whether a security had a credit loss. The Company has determined that the unrealized losses recorded as of December 31, 2018 and December 31, 2017 were yield-related and not the result of OTTI.

The amortized cost and estimated fair value of available-for-sale fixed-maturity securities by contractual maturity as of December 31, 2018 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.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of December 31, 2018

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	\$ 206	\$ 203
Due after one year through five years	1,507	1,497
Due after five years through 10 years	2,387	2,393
Due after 10 years	4,243	4,475
Mortgage-backed securities:		

RMBS	999	982
CMBS	542	539
Total	\$9,884	\$ 10,089

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Based on fair value, investments and restricted cash that are either held in trust for the benefit of third party ceding insurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise pledged or restricted totaled \$266 million and \$287 million, as of December 31, 2018 and December 31, 2017, respectively. The investment portfolio also contains securities that are held in trust by certain AGL subsidiaries for the benefit of other AGL subsidiaries in accordance with statutory and regulatory requirements in the amount of \$1,855 million and \$1,677 million, based on fair value as of December 31, 2018 and December 31, 2017, respectively.

No material investments of the Company were non-income producing for years ended December 31, 2018 and 2017, respectively.

Cash and Restricted Cash

The following table provides a reconciliation of the cash reported on the consolidated balance sheets and the cash and restricted cash reported in the statements of cash flows.

Cash and Restricted Cash

	As of December 31, 2018 2017 (in millions)	
Cash	\$ 104	\$ 144
Restricted cash	—	—
Total cash and restricted cash	\$ 104	\$ 144

11. Insurance Company Regulatory Requirements

The following table summarizes the equity and income amounts reported to local regulatory bodies in the U.S. and Bermuda for insurance company subsidiaries within the group. The discussion that follows describes the basis of accounting and differences to GAAP.

Insurance Regulatory Amounts Reported

	Policyholders' Surplus		Net Income (Loss)		
	As of		Year Ended		
	December 31,		December 31,		
	2018	2017	2018	2017	2016
	(in millions)				
U.S. statutory companies:					
AGM (1) (2)	\$2,533	\$2,254	\$ 172	\$ 152	\$ 191
AGC (1) (2)	1,793	2,073	(5)	219	108
MAC (2)	321	270	55	32	142
Bermuda statutory companies:					
AG Re	1,249	1,294	131	155	139
AGRO	383	380	10	10	8

Policyholders' surplus of AGM and AGC includes their indirect share of MAC. AGM and AGC own 60.7% and (1)39.3%, respectively, of the outstanding stock of Municipal Assurance Holdings Inc. (MAC Holdings), which owns 100% of the outstanding common stock of MAC.

As of December 31, 2018, policyholders' surplus is net of contingency reserves of \$913 million, \$550 million and (2)\$200 million for AGM, AGC and MAC, respectively. As of December 31, 2017, policyholders' surplus is net of contingency reserves of \$972 million, \$554 million and \$224 million for AGM, AGC and MAC, respectively.

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Basis of Regulatory Financial Reporting

United States

Each of the Company's U.S. domiciled insurance companies' ability to pay dividends depends, among other things, upon its financial condition, results of operations, cash requirements, compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of its state of domicile and other states. Financial statements prepared in accordance with accounting practices prescribed or permitted by local insurance regulatory authorities differ in certain respects from GAAP.

The Company's U.S. domiciled insurance companies prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners and their respective insurance departments. Prescribed statutory accounting practices are set forth in the National Association of Insurance Commissioners Accounting Practices and Procedures Manual. The Company has no permitted accounting practices on a statutory basis, except for those related to CIFGNA which was merged into AGC in 2016 and therefore subject to statutory merger accounting requiring the restatement of prior year balances of AGC to include CIFGNA. On the CIFG Acquisition Date, accounting policies were conformed with AGC's accounting policies which do not include any permitted practices.

GAAP differs in certain significant respects from U.S. insurance companies' statutory accounting practices prescribed or permitted by insurance regulatory authorities. The principal differences result from the statutory accounting practices listed below.

• Upfront premiums are earned upon expiration of risk rather than earned over the expected period of coverage. Premiums earnings are accelerated when transactions are economically defeased, rather than legally defeased.

• Acquisition costs are charged to expense as incurred rather than over the period that related premiums are earned.

• A contingency reserve is computed based on statutory requirements, whereas no such reserve is required under GAAP.

• Certain assets designated as “non-admitted assets” are charged directly to statutory surplus, rather than reflected as assets under GAAP.

• Investments in subsidiaries are carried on the balance sheet on the equity basis, to the extent admissible, rather than consolidated with the parent.

The amount of deferred tax assets that may be admitted is subject to an adjusted surplus threshold and is generally limited to the lesser of those assets the Company expects to realize within three years of the balance sheet date or fifteen percent of the Company's adjusted surplus. This realization period and surplus percentage is subject to change based on the amount of adjusted surplus. Under GAAP there is no non-admitted asset determination, rather a valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized.

• Insured credit derivatives are accounted for as insurance contracts rather than as derivative contracts measured at fair value.

• Bonds are generally carried at amortized cost rather than fair value.

Insured obligations of VIEs and refinancing vehicles debt, where the Company is deemed the primary beneficiary, are accounted for as insurance contracts. Under GAAP, such VIEs and refinancing vehicles are consolidated and any transactions with the Company are eliminated.

Surplus notes are recognized as surplus and each payment of principal and interest is recorded only upon approval of the insurance regulator rather than as liabilities with periodic accrual of interest.

Acquisitions are accounted for as either statutory purchases or statutory mergers, rather than under the purchase method under GAAP.

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Losses are discounted at tax equivalent yields, and recorded when the loss is deemed probable and without consideration of the deferred premium revenue. Under GAAP, expected losses are discounted at the risk free rate at the end of each reporting period and are recorded only to the extent they exceed deferred premium revenue.

The present value of installment premiums and commissions are not recorded on the balance sheet as they are under GAAP.

Mergers of acquired companies are treated as statutory mergers at historical balances and financial statements are retroactively revised assuming the merger occurred at the beginning of the prior year, rather than prospectively beginning with the date of acquisition at fair value under GAAP.

Bermuda

AG Re, a Bermuda regulated Class 3B insurer, and AGRO, a Bermuda regulated Class 3A and Class C insurer, prepare their statutory financial statements in conformity with the accounting principles set forth in the Insurance Act 1978, amendments thereto and related regulations. As of December 31, 2016, the Bermuda Monetary Authority (the Authority) requires insurers to prepare statutory financial statements in accordance with the particular accounting principles adopted by the insurer (which, in the case of AG Re and AGRO, are U.S. GAAP), subject to certain adjustments. The principal difference relates to certain assets designated as "non-admitted assets" which are charged directly to statutory surplus rather than reflected as assets as they are under U.S. GAAP.

United Kingdom

AGE prepares its Solvency and Financial Condition Report and other required regulatory financial report based on Prudential Regulation Authority and Solvency II Regulations (Solvency II). AGE adopted the full framework required by Solvency II on January 1, 2016, which is the date they became effective. As of December 31, 2018 and December 31, 2017, AGE's Own Funds were £693 million and £629 million, respectively.

Dividend Restrictions and Capital Requirements

United States

Under New York insurance law, AGM and MAC may only pay dividends out of "earned surplus," which is the 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, transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. AGM and MAC may each pay dividends without the prior approval of the New York Superintendent of Financial Services (New York Superintendent) that, together with all dividends declared or distributed by it during the preceding 12 months, do not exceed the lesser of 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period.

The maximum amount available during 2019 for AGM to distribute to AGMH as dividends without regulatory approval is estimated to be approximately \$172 million. Of such \$172 million, \$74 million is estimated to be available for distribution in the first quarter of 2019. The maximum amount available during 2019 for MAC to distribute as dividends to MAC Holdings, which is owned by AGM and AGC, without regulatory approval is estimated to be approximately \$32 million, of which approximately \$5 million is available for distribution in the first quarter of 2019.

Under Maryland's insurance law, AGC may, with prior notice to the Maryland Insurance Commissioner, pay an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed the lesser of 10% of its

policyholders' surplus (as of the prior December 31) or 100% of its adjusted net investment income during that period. The maximum amount available during 2019 for AGC to distribute as ordinary dividends is approximately \$123 million. Of such \$123 million, approximately \$42 million is available for distribution in the first quarter of 2019.

Bermuda

For AG Re, any distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital that would reduce its total statutory capital by 15% or more of its total statutory capital as set out in its previous year's financial statements requires the prior approval of the Authority. Separately, dividends are paid out of an insurer's statutory surplus and cannot exceed that surplus. Furthermore, annual dividends cannot exceed 25% of total statutory

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capital and surplus as set out in its previous year's financial statements, which is \$312 million, without AG Re certifying to the Authority that it will continue to meet required margins. Based on the foregoing limitations, in 2019 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$128 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$312 million as of December 31, 2018. Such dividend capacity can be further limited by the actual amount of AG Re's unencumbered assets, which amount changes from time to time in part due to collateral posting requirements. As of December 31, 2018, AG Re had unencumbered assets of approximately \$416 million.

For AGRO, annual dividends cannot exceed \$96 million, without AGRO certifying to the Authority that it will continue to meet required margins. Based on the foregoing limitations, in 2019 AGRO has the capacity to (i) make capital distributions in an aggregate amount up to \$21 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$96 million as of December 31, 2018. Such dividend capacity can be further limited by the actual amount of AGRO's unencumbered assets, which were approximately \$342 million as of December 31, 2018.

United Kingdom

U.K. company law prohibits AGE 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 PRA's capital requirements may in practice act as a restriction on dividends.

Dividend Restrictions and Capital Requirements

Distributions by
Insurance Company Subsidiaries

	Year Ended December 31, 2018 2017 2016 (in millions)		
Dividends paid by AGC to AGUS	\$133	\$107	\$79
Dividends paid by AGM to AGMH	171	196	247
Dividends paid by AG Re to AGL	125	125	100
Dividends paid by MAC to MAC Holdings (1)	27	36	—
Repurchase of common stock by AGM from AGMH	—	101	300
Repurchase of common stock by AGC from AGUS	200	—	—
Redemption of common stock by MAC from MAC Holdings (1)	—	250	—
Repayment of surplus note by MAC to AGM	—	—	100
Repayment of surplus note by MAC to MAC Holdings (1)	—	—	300

(1) MAC Holdings distributed nearly the entire amounts to AGM and AGC, in proportion to their ownership percentages.

12. Income Taxes

Accounting Policy

The provision for income taxes consists of an amount for taxes currently payable and an amount for deferred taxes. Deferred income taxes are provided for 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. A valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized.

Non-interest-bearing tax and loss bonds are purchased in the amount of the tax benefit that results from deducting contingency reserves as provided under Internal Revenue Code Section 832(e). The Company records the purchase of tax and loss bonds in deferred taxes.

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The Company recognizes tax benefits only if a tax position is “more likely than not” to prevail.

The Company elected to account for tax associated with Global Intangible Low-Taxed Income (GILTI) as a current-period expense when incurred.

Overview

AGL and its Bermuda subsidiaries AG Re, AGRO, and Cedar Personnel Ltd. (Bermuda Subsidiaries), are not subject to any income, withholding or capital gains taxes under current Bermuda law. The Company has received an assurance from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, AGL and its Bermuda Subsidiaries will be exempt from taxation in Bermuda until March 31, 2035. AGL's U.S. and U.K. subsidiaries are subject to income taxes imposed by U.S. and U.K. authorities, respectively, and file applicable tax returns. In addition, AGRO, a Bermuda domiciled company, has elected under Section 953(d) of the U.S. Internal Revenue Code (the Code) to be taxed as a U.S. domestic corporation.

In November 2013, AGL became tax resident in the U.K. although it remains a Bermuda-based company and its administrative and head office functions continue to be carried on in Bermuda. As a U.K. tax resident company, AGL is required to file a corporation tax return with Her Majesty's Revenue & Customs. AGL is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. The corporation tax rate is at 19% for 2018. Assured Guaranty expects that the dividends AGL receives from its direct subsidiaries will be exempt from U.K. corporation tax due to the exemption in section 931D of the U.K. Corporation Tax Act 2009. In addition, any dividends paid by AGL to its shareholders should not be subject to any withholding tax in the U.K. Assured Guaranty does not expect any profits of non-U.K. resident members of the group to be taxed under the U.K. "controlled foreign companies" regime and has obtained a clearance from Her Majesty's Revenue & Customs confirming this on the basis of current facts.

AGUS files a consolidated federal income tax return with all of its U.S. subsidiaries. AGE, the Company's U.K. subsidiary, had previously elected under U.S. Internal Revenue Code Section 953(d) to be taxed as a U.S. company. In January 2017, AGE filed a request with the U.S. Internal Revenue Service (IRS) to revoke the election, which was approved in May 2017. As a result of the revocation of the Section 953(d) election, AGE is no longer liable to pay future U.S. taxes beginning in 2017.

On January 10, 2017, AGC purchased MBIA UK, a U.K. based insurance company. After the purchase, MBIA UK changed its name to AGLN and files its tax returns in the U.K. as a separate entity for the period prior to its merger with AGE. For additional information on the MBIA UK Acquisition, see Note 2, Assumption of Insured Portfolio and Business Combinations. For additional information on the merger, see Note 1, Business and Basis of Presentation.

Assured Guaranty Overseas US Holdings Inc. and its subsidiaries AGRO and AG Intermediary Inc. file their own consolidated federal income tax return.

Effect of the 2017 Tax Cuts and Jobs Act

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (Tax Act) was signed into law. The Tax Act changed many items of U.S. corporate income taxation, including a reduction of the corporate income tax rate from 35% to 21%, implementation of a territorial tax system and imposition of a tax on deemed repatriated earnings of non-U.S. subsidiaries. At December 31, 2017, the Company had not completed accounting for the tax effects of the Tax Act; however, the Company made a reasonable estimate of the effects on the existing deferred tax balances and the one-time transition tax. The Company recognized a provisional income tax expense of \$61 million, which was included as a component of income tax expense from continuing operations in 2017. During 2018, the Company

recorded an adjustment to the provisional amount with a \$4 million tax benefit as a component of income tax expense from continuing operations. As of December 31, 2018, the accounting for the income tax effects of the Tax Act have been completed and the total net impact resulting from the Tax Act is an expense of \$57 million.

The Tax Act includes provisions for GILTI wherein taxes are imposed on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Tax Act also includes a Base Erosion Anti-abuse Tax provision, which taxes certain payments from a U.S. corporation to its foreign subsidiaries.

Deferred Tax Assets and Liabilities

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The provisional amount recorded related to the remeasurement of the deferred tax

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balance was an income tax expense of \$37 million. As a result of adjustments identified from filing the 2017 tax return, the total remeasurement of the deferred tax balance resulting from the Tax Act is an income tax expense of \$34 million.

Foreign Tax Effects

The one-time transition tax is based on total post-1986 earnings and profits for which the Company had previously deferred U.S. income taxes. The Company recorded a provisional amount for its one-time transition tax liability on non-U.S. subsidiaries less realizable foreign tax credits (FTCs) and a write off of deferred tax liabilities on unremitted earnings, resulting in an increase in income tax expense of \$24 million. As a result of adjustments identified from filing the 2017 tax return, the total impact to the transition tax resulting from the Tax Act is an income tax expense of \$23 million.

The table below summarizes the impact of the Tax Act on the consolidated statements of operations.

Summary of the Tax Act Effect

	Year Ended	
	December	
	31,	
	2018	2017
	(in millions)	
Transition tax	\$ (1)	\$ 93
Foreign tax credit realized	—	(31)
Write down of unremitted earnings	—	(38)
Net impact of repatriation	(1)	24
Write down of deferred tax asset due to tax rate change	(3)	37
Net impact of Tax Act	\$ (4)	\$ 61

Provision for Income Taxes

The effective tax rates reflect the proportion of income recognized by each of the Company's operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 21% in 2018 and 35% in 2017 and 2016, U.K. subsidiaries taxed at the U.K. marginal corporate tax rate of 19% unless taxed as a U.S. controlled foreign corporation (CFC), and no taxes for the Company's Bermuda Subsidiaries unless subject to U.S. tax by election. In 2018, due to the Tax Act, CFCs apply the local marginal corporate tax rate. In addition, the Tax Act creates a new requirement that a portion of the GILTI earned by CFCs must be included currently in the gross income of the CFCs' U.S. shareholder. For periods subsequent to April 1, 2017, the U.K. corporation tax rate has been reduced to 19%. For the periods between April 1, 2015 and March 31, 2017, the U.K. corporation tax rate was 20%. The Company's overall effective tax rate fluctuates based on the distribution of income across jurisdictions.

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A reconciliation of the difference between the provision for income taxes and the expected tax provision at statutory rates in taxable jurisdictions is presented below.

Effective Tax Rate Reconciliation

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Expected tax provision (benefit) at statutory rates in taxable jurisdictions	\$97	\$300	\$316
Tax-exempt interest	(23)	(49)	(49)
Bargain purchase gain	—	(20)	(125)
Change in liability for uncertain tax positions	(15)	(26)	11
Effect of provision to tax return filing adjustments	(1)	(8)	(15)
State taxes	6	9	3
Taxes on reinsurance	6	(4)	(4)
Effects of transitional adjustments related to the Tax Act	(4)	61	—
Other	(7)	(2)	(1)
Total provision (benefit) for income taxes	\$59	\$261	\$136
Effective tax rate	10.2%	26.3 %	13.4 %

The change in liability for uncertain tax positions for 2018 is driven by the closure of the 2013 – 2014 tax years, see "Audits" below for further discussion.

The expected tax provision at statutory rates in taxable jurisdictions is calculated as the sum of pretax income in each jurisdiction multiplied by the statutory tax rate of the jurisdiction by which it will be taxed. Where there is a pretax loss in one jurisdiction and pretax income in another, the total combined expected tax rate may be higher or lower than any of the individual statutory rates.

The following tables present pretax income and revenue by jurisdiction.

Pretax Income (Loss) by Tax Jurisdiction

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
U.S.	\$461	\$873	\$921
Bermuda	121	145	126
U.K. and Other	(2)	(27)	(30)
Total	\$580	\$991	\$1,017

Revenue by Tax Jurisdiction

	Year Ended December 31,		
	2018	2017	2016

(in millions)

U.S.	\$802	\$1,543	\$1,442
Bermuda	177	216	239
U.K. and Other	23	(20)	(4)
Total	\$1,002	\$1,739	\$1,677

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Pretax income by jurisdiction may be disproportionate to revenue by jurisdiction to the extent that insurance losses incurred are disproportionate.

Tax Assets (Liabilities)

Deferred and Current Tax Assets (Liabilities) (1)

	As of December 2018	As of December 31, 2017
	(in millions)	
Deferred tax assets (liabilities)	\$ 68	\$ 98
Current tax assets (liabilities)	22	21

(1) Included in other assets or other liabilities on the consolidated balance sheets.

Components of Net Deferred Tax Assets

	As of December 31, 2018 2017	
	(in millions)	
Deferred tax assets:		
Unearned premium reserves, net	\$ 98	\$ 124
Investment basis differences	49	63
Foreign tax credit	36	43
Net operating loss	34	38
Deferred compensation	25	21
Alternative minimum tax credit	20	59
FG VIEs	9	13
Unrealized losses on credit derivative financial instruments, net	6	20
Other	20	14
Total deferred income tax assets	297	395
Deferred tax liabilities:		
Unrealized appreciation on investments	54	91
Public debt	50	53
Market discount	31	28
DAC	23	12
Unrealized gains on CCS	16	13
Loss and LAE reserve	7	27
Other	12	30
Total deferred income tax liabilities	193	254
Less: Valuation allowance	36	43
Net deferred income tax asset	\$ 68	\$ 98

As of December 31, 2018, the Company had alternative minimum tax credits of \$20 million which, pursuant to the Tax Act, are available as a credit to offset regular tax liability over the next two years with any excess refundable by 2021.

As part of the CIFG Acquisition, the Company acquired \$189 million of NOL which will begin to expire in 2033. The NOL has been limited under Internal Revenue Code Section 382 due to a change in control as a result of the acquisition. As of December 31, 2018, the Company had \$162 million of NOLs available to offset its future U.S. taxable income.

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Valuation Allowance

The Company has \$13 million of FTC carryovers from previous acquisitions and \$23 million of FTC due to the Tax Act for use against regular tax in future years. FTCs will begin to expire in 2020 and will fully expire by 2027. In analyzing the future realizability of FTCs, the Company notes limitations on future foreign source income due to overall foreign losses as negative evidence. After reviewing positive and negative evidence, the Company came to the conclusion that it is more likely than not that the FTC of \$36 million will not be utilized, and therefore recorded a valuation allowance with respect to this tax attribute.

The Company came to the conclusion that it is more likely than not that the remaining net deferred tax asset will be fully realized after weighing all positive and negative evidence available as required under GAAP. The positive evidence that was considered included the cumulative income the Company has earned over the last three years, and the significant unearned premium income to be included in taxable income. The positive evidence outweighs any negative evidence that exists. As such, the Company believes that no valuation allowance is necessary in connection with the remaining net deferred tax asset. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

Audits

As of December 31, 2018, AGUS had open tax years with the U.S. IRS for 2015 to present. In December 2016, the IRS issued a Revenue Agent Report for the 2009 - 2012 audit period, which did not identify any material adjustments that were not already accounted for in prior periods. In April 2017, the Company received a final letter from the IRS to close the audit with no additional findings or changes, and as a result the Company released previously recorded uncertain tax position reserves and accrued interest of approximately \$37 million in the second quarter of 2017. The 2013 and 2014 tax years closed in 2018. Assured Guaranty Overseas US Holdings Inc. has open tax years of 2015 forward. The Company's U.K. subsidiaries are not currently under examination and have open tax years of 2016 forward. CIFGNA, which was acquired by AGC during 2016, is not currently under examination and has open tax years of 2015 to the date of acquisition. In September 2018, the Company's French subsidiary, CIFGE (which was subsequently merged with AGE), concluded an examination for the period January 1, 2015 through December 31, 2016 with no material adjustments and has open tax years from 2017 to the date of its merger with AGE.

Uncertain Tax Positions

The following table provides a reconciliation of the beginning and ending balances of the total liability for unrecognized tax positions.

	2018	2017	2016
	(in millions)		
Beginning of year	\$28	\$50	\$40
Effect of provision to tax return filing adjustments	1	8	6
Increase in unrecognized tax positions as a result of position taken during the current period	—	1	4
Decrease in unrecognized tax positions as a result of settlement of positions taken during the prior period	—	(31)	—
Reductions to unrecognized tax benefits as a result of the applicable statute of limitations	(15)	—	—
Balance as of December 31,	\$14	\$28	\$50

The Company's policy is to recognize interest related to uncertain tax positions in income tax expense and has accrued \$1 million for the full year 2018, \$1 million for the full year 2017 and \$2 million for the full year 2016. As of

December 31, 2018 and December 31, 2017, the Company has accrued \$2 million and \$3 million of interest, respectively.

The total amount of reserves for unrecognized tax positions, including accrued interest, as of December 31, 2018 and December 31, 2017 that would affect the effective tax rate, if recognized, was \$16 million and \$31 million, respectively. The Company released \$18 million of previously recorded uncertain tax position reserves and accrued interest in 2018 due to the closing of the 2013 and 2014 tax years.

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13. Reinsurance

The Company assumes exposure (Assumed Business) and may cede portions of exposure it has insured (Ceded Business) in exchange for premiums, net of any ceding commissions. Substantially all of the Company's Assumed Business and Ceded Business relates to financial guaranty business, except for a modest amount that relates to AGRO's non-financial guaranty business. The Company historically entered into, and with respect to new business originated by AGRO continues to enter into, ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks.

Accounting Policy

For business assumed and ceded, the accounting model of the underlying direct financial guaranty contract dictates the accounting model used for the reinsurance contract (except for those eliminated as FG VIEs). For any assumed or ceded financial guaranty insurance premiums and losses, the accounting models described in Note 6 are followed. For any assumed or ceded credit derivative contracts, the accounting model in Note 8 is followed.

Assumed and Ceded Financial Guaranty Business

The Company has assumed financial guaranty business (Assumed Financial Guaranty Business) from third party insurers, primarily other monoline financial guaranty companies that currently are in runoff and no longer actively writing new business (Legacy Monoline Insurers). The Company, if required, secures its reinsurance obligations to these Legacy Monoline Insurers, typically by depositing in trust assets with a market value equal to its assumed liabilities calculated on a U.S. statutory basis.

As of December 31, 2018, the majority of the Company's Assumed Financial Guaranty Business from Legacy Monoline Insurers consists of business that AGC assumed in the SGI Transaction effective as of June 1, 2018, pursuant to which AGC (among other things) assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio. The par value on that date of the exposures reinsured totaled approximately \$11 billion. The reinsured portfolio consists predominantly of public finance and infrastructure obligations that meet Assured Guaranty's new business underwriting criteria. See Note 2, Assumption of Insured Portfolio and Business Combinations for additional information on the SGI Transaction. The balance of the Company's Assumed Financial Guaranty Business mainly consists of business that the Company (predominantly AGC and/or AG Re) assumed prior to the 2008-2009 financial crisis from other Legacy Monoline Insurers.

The Company's facultative and treaty agreements with the Legacy Monoline Insurers are generally subject to termination at the option of the ceding company:

- if the Company fails to meet certain financial and regulatory criteria;
- if the Company fails to maintain a specified minimum financial strength rating, or
- upon certain changes of control of the Company.

Upon termination due to one of the above events, the Company typically would be required to return to the ceding company unearned premiums (net of ceding commissions) and loss reserves, calculated on a U.S. statutory basis, attributable to the assumed business (plus in certain cases, an additional required amount), after which the Company would be released from liability with respect to such business.

As of December 31, 2018, if each third party company ceding business to AG Re and/or AGC had a right to recapture such business, and chose to exercise such right, the aggregate amounts that AG Re and AGC could be required to pay to all such companies would be approximately \$42 million and \$326 million, respectively.

The Company has ceded financial guaranty business to non-affiliated companies to limit its exposure to risk. The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. The Company's ceded contracts generally allow the Company to recapture ceded financial guaranty business after certain triggering events, such as reinsurer downgrades.

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The following table presents the components of premiums and losses reported in the consolidated statements of operations and the contribution of the Company's Assumed and Ceded Businesses (both financial guaranty and non-financial guaranty).

Effect of Reinsurance on Statement of Operations

	Year Ended		
	December 31,		
	2018	2017	2016
	(in millions)		
Premiums Written:			
Direct	\$288	\$297	\$165
Assumed (1)	324	10	(11)
Ceded (2)	14	18	(17)
Net	\$626	\$325	\$137
Premiums Earned:			
Direct	\$509	\$693	\$887
Assumed	51	27	27
Ceded	(12)	(30)	(50)
Net	\$548	\$690	\$864
Loss and LAE:			
Direct	\$68	\$404	\$327
Assumed	(1)	11	—
Ceded	(3)	(27)	(32)
Net	\$64	\$388	\$295

(1) Negative assumed premiums written were due to changes in expected debt service schedules. Includes business assumed from SGI pursuant to the SGI Transaction.

(2) Positive ceded premiums written were due to commutations and changes in expected debt service schedules.

In addition to the items presented in the table above, the Company records in the consolidated statements of operations, the effect of assumed and ceded credit derivative exposures. These amounts were gains of \$3 million in 2018, and losses of \$1 million and \$27 million in 2017 and 2016, respectively.

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Exposure to Reinsurers (1)

	As of December 31, 2018 2017 (in millions)	
Due (To) From:		
Assumed premium, net of commissions	\$ 82	\$ 53
Ceded premium, net of commissions	(26)	(42)
Assumed expected loss to be paid	(49)	(71)
Ceded expected loss to be paid	14	29
Outstanding Exposure:		
Financial guaranty		
Assumed par outstanding	16,904	8,383
Ceded par outstanding (2)	2,389	4,434
Non-financial guaranty exposure (see Note 4)		
Assumed	1,081	974
Ceded	239	159

The total collateral posted by all non-affiliated reinsurers required to post, or that had agreed to post, collateral as of December 31, 2018 and December 31, 2017 was approximately \$80 million and \$118 million, respectively.

(1) Such collateral is posted (i) in the case of certain reinsurers not authorized or "accredited" in the U.S., in order for the Company to receive credit for the liabilities ceded to such reinsurers, and (ii) in the case of certain reinsurers authorized in the U.S., on terms negotiated with the Company.

(2) Of the total par ceded to unrated or BIG rated reinsurers, \$236 million and \$296 million is rated BIG as of December 31, 2018 and December 31, 2017, respectively.

In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. These reinsurers are required to post collateral for the benefit of the Company in an amount at least equal to the sum of their ceded unearned premium reserve, loss reserves and contingency reserves all calculated on a statutory basis of accounting. In addition, certain authorized reinsurers post collateral on terms negotiated with the Company.

Commutations

In recent years the Company has reassumed previously ceded books of business from several of its reinsurers. The table below summarizes the effect of such commutations.

Commutations of Ceded Reinsurance Contracts

	Year Ended December 31, 2018 2017 2016 (in millions)		
Increase in net unearned premium reserve	\$64	\$ 82	\$ —
Increase in net par outstanding	1,457	5,107	28
Commutation gains (losses) (1)	(16)	328	8

(1)Includes SGI commutation. See Note 2, Assumption of Insured Portfolio and Business Combinations.

Excess of Loss Reinsurance Facility

Effective January 1, 2018, AGC, AGM and MAC entered into a \$400 million aggregate excess of loss reinsurance facility of which \$180 million was placed with an unaffiliated reinsurer. This facility replaces a similar \$400 million aggregate

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excess of loss reinsurance facility, of which \$360 million was placed with unaffiliated reinsurers, that AGC, AGM and MAC had entered into effective January 1, 2016 and which terminated on December 31, 2017. The new facility covers losses occurring either from January 1, 2018 through December 31, 2024, or January 1, 2019 through December 31, 2025, at the option of AGC, AGM and MAC. It terminates on January 1, 2020, unless AGC, AGM and MAC choose to extend it. The new facility covers certain U.S. public finance exposures insured or reinsured by AGC, AGM and MAC as of September 30, 2017, excluding exposures that were rated below investment grade as of December 31, 2017 by Moody's or S&P or internally by AGC, AGM or MAC and is subject to certain per credit limits. Among the exposures excluded are those associated with the Commonwealth of Puerto Rico and its related authorities and public corporations. The new facility attaches when AGC's, AGM's and MAC's net losses (net of AGC's and AGM's reinsurance (including from affiliates) and net of recoveries) exceed \$0.8 billion in the aggregate. The new facility covers a portion of the next \$400 million of losses, with the reinsurer assuming \$180 million of the \$400 million of losses and AGC, AGM and MAC jointly retaining the remaining \$220 million. The reinsurer is required to be rated at least AA- or to post collateral sufficient to provide AGC, AGM and MAC with the same reinsurance credit as reinsurers rated AA-. AGC, AGM and MAC are obligated to pay the reinsurer its share of recoveries relating to losses during the coverage period in the covered portfolio. AGC, AGM and MAC paid approximately \$3.2 million of premiums in 2018 for the term January 1, 2018 through December 31, 2018 and deposited approximately \$3.2 million in cash into a trust account for the benefit of the reinsurer to be used to pay the premiums for 2019. The main differences between the new facility and the prior facility that terminated on December 31, 2017 are the reinsurance attachment point (\$0.8 billion versus \$1.25 billion), the total reinsurance coverage (\$180 million part of \$400 million versus \$360 million part of \$400 million) and the annual premium (\$3.2 million versus \$9 million).

Assumed and Ceded Non-Financial Guaranty Business

As described in Note 4, Outstanding Exposure, Non-Financial Guaranty Insurance, the Company, through AGRO, assumes non-financial guaranty business from third party insurers (Assumed Non-Financial Guaranty Business). It also retrocedes some of this business to third party reinsurers. A downgrade of AGRO's financial strength rating by S&P below "A" would require AGRO to post, as of December 31, 2018, an estimated \$2 million of collateral in respect of certain of its Assumed Non-Financial Guaranty Business. A further downgrade of AGRO's S&P rating below A- would give the company ceding such business the right to recapture the business for AGRO's collateral amount, and, if also accompanied by a downgrade of AGRO's financial strength rating by A.M. Best Company, Inc. below A-, would also require AGRO to post, as of December 31, 2018, an estimated \$8 million of collateral in respect of a different portion of AGRO's Assumed Non-Financial Guaranty Business. AGRO's ceded contracts generally have equivalent provisions requiring the assuming reinsurer to post collateral and/or allowing AGRO to recapture the ceded business upon certain triggering events, such as reinsurer rating downgrades.

14. Related Party Transactions

Two of the Company's investment portfolio managers, Wellington Management Company, LLP (Wellington) and BlackRock Financial Management, Inc. (BlackRock), each own more than 5% of the Company's common shares. In addition, the Company has a minority interest in Wasmer, Schroder & Company LLC, which is also one of the Company's investment portfolio managers. The investment management expense from transactions with these related parties was approximately \$4.0 million in 2018, \$4.1 million in 2017 and \$4.2 million in 2016. In addition, the Company recognized \$1.2 million in 2018 in income from its investment in Wasmer, Schroder & Company LLC. As of December 31, 2018 and 2017 there were no other significant amounts payable to or amounts receivable from related parties, other than compensation in the ordinary course of business.

The Company used a portion of its share repurchase program to repurchase 297,131 common shares from its Chief Executive Officer and 23,062 common shares from its then General Counsel on January 6, 2017. The shares were purchased at the closing price of a common share of the Company on the New York Stock Exchange on January 6,

2017. Separately, these officers also received 297,131 and 23,062 common shares, respectively, on January 6, 2017 in settlement of 297,131 share units and 23,062 share units held by them in the employer stock fund of the Assured Guaranty Ltd. Supplemental Employee Retirement Plan (the AGL SERP). The distribution of shares occurred in January 2017 pursuant to the terms of an amendment adopted in 2011 to the AGL SERP. Such amendment was adopted to comply with requirements of Section 409A of the Code and Section 457A of the Code, which required all grandfathered amounts (within the meaning of Section 457A of the Code), including the units in the employer stock fund in the AGL SERP, to be included in the income of the applicable participant no later than 2017.

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15. Commitments and Contingencies

Leases

AGL and its subsidiaries are party to various lease agreements accounted for as operating leases. The Company leases and occupies approximately 103,500 square feet in New York City through 2032. Subject to certain conditions, the Company has an option to renew the lease for five years at a fair market rent. In addition, AGL and its subsidiaries lease additional office space in various locations under non-cancelable operating leases which expire at various dates through 2029. Rent expense was \$9 million in 2018, \$9 million in 2017 and \$13 million in 2016.

The future minimum office rental payments and equipment leases as of December 31, 2018 are as follows:

Future Minimum Rental Payments

Year (in millions)
2019 \$ 9
2020 9
2021 8
2022 8
2023 9
Thereafter
Total \$ 115

Accounting Policy

The Company recognized operating lease expense on a straight-line basis over the lease term.

Legal Proceedings

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

In addition, in the ordinary course of their respective businesses, certain of AGL's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods or prevent losses in the future. For example, the Company has commenced a number of legal actions in the Federal District Court for Puerto Rico to enforce its rights with respect to the obligations it insures of Puerto Rico and various of its related authorities and public corporations. See "Exposure to Puerto Rico" section of Note 4, Outstanding Exposure, for a description of such actions. See "Recovery Litigation" section of Note 5, Expected Loss to be Paid, for a description of recovery litigation unrelated to Puerto Rico. The amounts, if any, the Company will recover in these and other proceedings to recover losses are uncertain, and recoveries, or failure to obtain recoveries, in any one or more of these proceedings during any quarter or year could be material to the Company's results of operations in that particular quarter or year.

The Company also receives subpoenas duces tecum and interrogatories from regulators from time to time.

Accounting Policy

The Company establishes accruals for litigation and regulatory matters to the extent it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is disclosed, including matters discussed below. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

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Litigation

On November 28, 2011, Lehman Brothers International (Europe) (in administration) (LBIE) sued AG Financial Products Inc. (AGFP), an affiliate of AGC which in the past had provided credit protection to counterparties under CDS. AGC acts as the credit support provider of AGFP under these CDS. LBIE's complaint, which was filed in the Supreme Court of the State of New York, asserted a claim for breach of the implied covenant of good faith and fair dealing based on AGFP's termination of nine credit derivative transactions between LBIE and AGFP and asserted claims for breach of contract and breach of the implied covenant of good faith and fair dealing based on AGFP's termination of 28 other credit derivative transactions between LBIE and AGFP and AGFP's calculation of the termination payment in connection with those 28 other credit derivative transactions. Following defaults by LBIE, AGFP properly terminated the transactions in question in compliance with the agreement between AGFP and LBIE, and calculated the termination payment properly. AGFP calculated that LBIE owes AGFP approximately \$29 million in connection with the termination of the credit derivative transactions, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately \$1.4 billion. AGFP filed a motion to dismiss the claims for breach of the implied covenant of good faith in LBIE's complaint, and on March 15, 2013, the court granted AGFP's motion to dismiss in respect of the count relating to the nine credit derivative transactions and narrowed LBIE's claim with respect to the 28 other credit derivative transactions. LBIE's administrators disclosed in an April 10, 2015 report to LBIE's unsecured creditors that LBIE's valuation expert has calculated LBIE's claim for damages in aggregate for the 28 transactions to range between a minimum of approximately \$200 million and a maximum of approximately \$500 million, depending on what adjustment, if any, is made for AGFP's credit risk and excluding any applicable interest. AGFP filed a motion for summary judgment on the remaining causes of action asserted by LBIE and on AGFP's counterclaims and on July 2, 2018, the court granted in part and denied in part AGFP's motion. The court dismissed, in its entirety, LBIE's remaining claim for breach of the implied covenant of good faith and fair dealing and also dismissed LBIE's claim for breach of contract solely to the extent that it is based upon AGFP's conduct in connection with the auction. With respect to LBIE's claim for breach of contract, the court held that there are triable issues of fact regarding whether AGFP calculated its loss reasonably and in good faith. On October 1, 2018, AGFP filed an appeal with the Appellate Division of the Supreme Court of the State of New York, First Judicial Department, seeking reversal of the portions of the lower court's ruling denying AGFP's motion for summary judgment with respect to LBIE's sole remaining claim for breach of contract. On January 17, 2019, the Appellate Division affirmed the Supreme Court's decision, holding that the lower court correctly determined that there are triable issues of fact regarding whether AGFP calculated its loss reasonably and in good faith.

16. Long-Term Debt and Credit Facilities

Accounting Policy

Long-term debt is recorded at principal amounts net of any unamortized original issue discount or premium and unamortized acquisition date fair value adjustment for AGM and AGMH debt. Discounts and acquisition date fair value adjustments are accreted into interest expense over the life of the applicable debt.

Long Term Debt

The Company has outstanding long-term debt primarily consisting of debt issued by AGUS and AGMH. All of the AGUS and AGMH debt is fully and unconditionally guaranteed by AGL; AGL's guarantee of the junior subordinated debentures is on a junior subordinated basis.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate LIBOR. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to

predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. While regulators have suggested substitute rates, including the Secured Overnight Financing Rate, the impact of the discontinuance of LIBOR, if it occurs, will be contract-specific. Some of the debt issued by the Company, as well as CCS from which it benefits, pay interest tied to LIBOR. The Company cannot at this time predict the impact of the discontinuance of LIBOR, if it occurs.

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Debt Issued by AGUS

7% Senior Notes. On May 18, 2004, AGUS issued \$200 million of 7% Senior Notes due 2034 (7% Senior Notes) for net proceeds of \$197 million. Although the coupon on the Senior Notes is 7%, the effective rate is approximately 6.4%, taking into account the effect of a cash flow hedge executed by the Company in March 2004. The notes are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price.

5% Senior Notes. On June 20, 2014, AGUS issued \$500 million of 5% Senior Notes due 2024 (5% Senior Notes) for net proceeds of \$495 million. The net proceeds from the sale of the notes were used for general corporate purposes, including the purchase of AGL common shares. The notes are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price.

Series A Enhanced Junior Subordinated Debentures. On December 20, 2006, AGUS issued \$150 million of Debentures due 2066. The Debentures paid a fixed 6.4% rate of interest until December 15, 2016, and thereafter pay a floating rate of interest, reset quarterly, at a rate equal to three month LIBOR plus a margin equal to 2.38%. AGUS may select at one or more times to defer payment of interest for one or more consecutive periods for up to ten years. Any unpaid interest bears interest at the then applicable rate. AGUS may not defer interest past the maturity date. The debentures are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest to the date of redemption.

Debt Issued by AGMH

6 7/8% QUIBS. On December 19, 2001, AGMH issued \$100 million face amount of 6 7/8% QUIBS due December 15, 2101, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest to the date of redemption.

6.25% Notes. On November 26, 2002, AGMH issued \$230 million face amount of 6.25% Notes due November 1, 2102, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest to the date of redemption.

5.6% Notes. On July 31, 2003, AGMH issued \$100 million face amount of 5.6% Notes due July 15, 2103, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest to the date of redemption.

Junior Subordinated Debentures. On November 22, 2006, AGMH issued \$300 million face amount of Junior Subordinated Debentures with a scheduled maturity date of December 15, 2036 and a final repayment date of December 15, 2066. The final repayment date of December 15, 2066 may be automatically extended up to four times in five-year increments provided certain conditions are met. The debentures are redeemable, in whole or in part, at any time prior to December 15, 2036 at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price. Interest on the debentures will accrue from November 22, 2006 to December 15, 2036 at the annual rate of 6.4%. If any amount of the debentures remains outstanding after December 15, 2036, then the principal amount of the outstanding debentures will bear interest at a floating interest rate equal to one-month LIBOR plus 2.215% until repaid. AGMH may elect at one or more times to defer payment of interest on the debentures for one or more consecutive interest periods that do not exceed ten years. In connection with the completion of this offering, AGMH entered into a replacement capital covenant for the benefit of persons that buy, hold or sell a specified series of AGMH long-term indebtedness ranking senior to the debentures. Under the covenant, the debentures will not be repaid, redeemed, repurchased or defeased by AGMH or any of its subsidiaries on or before the date that is 20 years prior to the final repayment date, except to the extent that AGMH has received proceeds from

the sale of replacement capital securities. The proceeds from this offering were used to pay a dividend to the shareholders of AGMH.

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The principal and carrying values of the Company's long-term debt are presented in the table below.

Principal and Carrying Amounts of Debt

	As of December 31, 2018		As of December 31, 2017	
	Principal	Carrying Value	Principal	Carrying Value
	(in millions)			
AGUS:				
7% Senior Notes (1)	\$200	\$197	\$200	\$197
5% Senior Notes (1)	500	497	500	496
Series A Enhanced Junior Subordinated Debentures (2)	150	150	150	150
Total AGUS	850	844	850	843
AGMH (3):				
67/8% QUIBS (1)	100	70	100	70
6.25% Notes (1)	230	143	230	142
5.6% Notes (1)	100	57	100	57
Junior Subordinated Debentures (2)	300	198	300	192
Total AGMH	730	468	730	461
AGM (3):				
AGM Notes Payable	5	5	6	6
Total AGM	5	5	6	6
AGMH's debt purchased by AGUS	(128)	(84)	(28)	(18)
Total	\$1,457	\$1,233	\$1,558	\$1,292

(1) AGL fully and unconditionally guarantees these obligations.

(2) Guaranteed by AGL on a junior subordinated basis.

Carrying amounts are different than principal amounts primarily due to fair value adjustments at the date of the (3) AGMH acquisition, which are accreted or amortized into interest expense over the remaining terms of these obligations.

The following table presents the principal amounts of AGMH's outstanding Junior Subordinated Debentures that AGUS purchased and the loss on extinguishment of debt recognized by the Company. The Company may choose to make additional purchases of this or other Company debt in the future.

AGUS's Purchase
of AGMH's Junior Subordinated Debentures

	Year Ended December 31, 2018 2017 (in millions)	
Principal amount repurchased	\$ 100	\$ 28
Loss on extinguishment of debt (1)	34	9

Included in other income in the consolidated statements of operations. The loss represents the difference between (1) the amount paid to purchase AGMH's debt and the carrying value of the debt, which includes the unamortized fair value adjustments that were recorded upon the acquisition of AGMH in 2009.

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Principal payments due under the long-term debt are as follows:

Expected Maturity Schedule of Debt
As of December 31, 2018

	AGUS	AGMH (1)	AGM	Total
	(in millions)			
2019 - 2023	\$—	\$ —	\$ 3	\$3
2024 - 2043	700	—	2	702
2044 - 2063	—	—	—	—
2064 - 2083	150	300	—	450
Thereafter	—	430	—	430
Total	\$850	\$ 730	\$ 5	\$1,585

(1)Includes AGMH's debt purchased by AGUS of \$128 million.

Interest Expense

	Year Ended December 31, 2018 2017 2016 (in millions)		
AGUS:			
7% Senior Notes	\$13	\$13	\$13
5% Senior Notes	26	26	26
Series A Enhanced Junior Subordinated Debentures	7	5	9
Total AGUS	46	44	48
AGMH:			
67/8% QUIBS	7	7	7
6.25% Notes	15	16	16
5.6% Notes	6	6	6
Junior Subordinated Debentures	25	25	25
Total AGMH	53	54	54
AGMH's debt purchased by AGUS	(5)	(1)	—
Total	\$94	\$97	\$102

Intercompany Credit Facility and Intercompany Debt

On October 25, 2013, AGL, as borrower, and AGUS, as lender, entered into a revolving credit facility pursuant to which AGL may, from time to time, borrow for general corporate purposes. Under the credit facility, AGUS committed to lend a principal amount not exceeding \$225 million in the aggregate. In September 2018, AGL and AGUS amended the revolving credit facility to extend the commitment until October 25, 2023 (the loan commitment termination date). The unpaid principal amount of each loan will bear interest at a fixed rate equal to 100% of the then applicable interest rate as determined under Section 1274(d) of the Code, and interest on all loans will be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. Accrued interest on all loans will be paid on the last day of each June and December, beginning on December 31, 2013, and at maturity. AGL must repay the then unpaid principal amounts of the loans by the third anniversary of the loan commitment termination

date. No amounts are currently outstanding under the credit facility.

In addition, in 2012 AGUS borrowed \$90 million from its affiliate AGRO to fund the acquisition of MAC. In 2018, the maturity date was extended to November 2023. During 2018, 2017 and 2016, AGUS repaid \$10 million, \$10 million and \$20 million, respectively, in outstanding principal as well as accrued and unpaid interest. As of December 31, 2018, \$50 million remained outstanding.

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Committed Capital Securities

Each of AGC and AGM have entered into put agreements with four separate custodial trusts allowing AGC and AGM, respectively, to issue an aggregate of \$200 million of non-cumulative redeemable perpetual preferred securities to the trusts in exchange for cash. Each custodial trust was created for the primary purpose of issuing \$50 million face amount of CCS, investing the proceeds in high-quality assets and entering into put options with AGC or AGM, as applicable. The Company does not consider itself to be the primary beneficiary of the trusts and the trusts are not consolidated in Assured Guaranty's financial statements.

The trusts provide AGC and AGM access to new equity capital at their respective sole discretion through the exercise of the put options. Upon AGC's or AGM's exercise of its put option, the relevant trust will liquidate its portfolio of eligible assets and use the proceeds to purchase the AGC or AGM preferred stock, as applicable. AGC or AGM may use the proceeds from its sale of preferred stock to the trusts for any purpose, including the payment of claims. The put agreements have no scheduled termination date or maturity. However, each put agreement will terminate if (subject to certain grace periods) specified events occur. Both AGC and AGM continue to have the ability to exercise their respective put options and cause the related trusts to purchase their preferred stock.

Prior to 2008 or 2007, the amounts paid on the CCS were established through an auction process. All of those auctions failed in 2008 or 2007, and the rates paid on the CCS increased to their respective maximums. The annualized rate on the AGC CCS is one-month LIBOR plus 250 bps, and the annualized rate on the AGM CPS is one-month LIBOR plus 200 bps.

See Note 7, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a discussion of the fair value measurement of the CCS.

17. Earnings Per Share

Accounting Policy

The Company computes EPS using a two-class method, which is an earnings allocation formula that determines EPS for (i) each class of common stock (the Company has a single class of common stock), and (ii) participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. Restricted stock awards and share units under the AGC supplemental executive retirement plan (AGC SERP) are considered participating securities as they received non-forfeitable rights to dividends (or dividend equivalents) similar to common stock.

Basic EPS is calculated by dividing net (loss) income available to common shareholders of Assured Guaranty by the weighted average number of common shares outstanding during the period. Diluted EPS adjusts basic EPS for the effects of restricted stock, restricted stock units, stock options and other potentially dilutive financial instruments (dilutive securities), only in the periods in which such effect is dilutive. The effect of the dilutive securities is reflected in diluted EPS by application of the more dilutive of (1) the treasury stock method or (2) the two-class method assuming nonvested shares are not converted into common shares.

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Computation of Earnings Per Share

	Year Ended December 31,		
	2018	2017	2016
	(in millions, except per share amounts)		
Basic EPS:			
Net income (loss) attributable to AGL	\$ 521	\$ 730	881
Less: Distributed and undistributed income (loss) available to nonvested shareholders	1	1	1
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$ 520	\$ 729	880
Basic shares	110.0	120.6	133.0
Basic EPS	\$ 4.73	\$ 6.05	\$ 6.61
Diluted EPS:			
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$ 520	\$ 729	\$ 880
Plus: Re-allocation of undistributed income (loss) available to nonvested shareholders of AGL and subsidiaries	—	—	—
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, diluted	\$ 520	\$ 729	\$ 880
Basic shares	110.0	120.6	133.0
Dilutive securities:			
Options and restricted stock awards	1.3	1.7	1.1
Diluted shares	111.3	122.3	134.1
Diluted EPS	\$ 4.68	\$ 5.96	\$ 6.56
Potentially dilutive securities excluded from computation of EPS because of antidilutive effect	0.1	0.1	0.3

18. Shareholders' Equity

Share Issuances

AGL has authorized share capital of \$5 million divided into 500,000,000 shares with a par value \$0.01 per share. Except as described below, AGL's common shares 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 AGL's common shares are entitled to share equally, in proportion to the number of common shares held by such holder, in AGL's assets, if any remain after the payment of all its liabilities and the liquidation preference of any outstanding preferred shares. Under certain circumstances, AGL has the right to purchase all or a portion of the shares held by a shareholder at fair market value. All of the common shares are fully paid and non assessable. Holders of AGL's common shares are entitled to receive dividends as lawfully may be declared from time to time by AGL's Board of Directors (the Board).

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 AGL's shares) of a shareholder are treated as "controlled shares" (as determined pursuant to section 958 of the Code) of any U.S. Person and such controlled shares constitute 9.5% or more of the

votes conferred by AGL's 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 AGL's 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 AGL under the Code if AGL were a CFC as defined in the Code and if the ownership threshold under the Code were 9.5% (as defined in AGL's Bye-Laws as a 9.5% U.S. Shareholder).

Subject to AGL's Bye-Laws and Bermuda law, AGL's Board has the power to issue any of AGL's unissued shares as it determines, including the issuance of any shares or class of shares with preferred, deferred or other special rights.

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Under AGL's Bye-Laws and subject to Bermuda law, if AGL's Board determines that any ownership of AGL's shares may result in adverse tax, legal or regulatory consequences to the Company, any of the Company's subsidiaries or any of its shareholders or indirect holders of shares or its Affiliates (other than such as AGL's Board considers de minimis), the Company has the option, but not the obligation, to require such shareholder to sell to AGL or to a third party to whom AGL assigns 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 to represent the shares' fair market value (as defined in AGL's Bye-Laws). In addition, AGL's Board 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 AGL 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 AGL that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). 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. AGL's Bye-laws provide that it will use its best efforts to notify shareholders of their voting interests prior to any vote to be taken by them.

Share Repurchases

Accounting Policy

The Company records share repurchases as a reduction to common stock and additional paid-in capital. Once additional paid-in capital has been exhausted, share repurchases are recorded as a reduction to common stock and retained earnings.

Share Repurchases

As of March 1, 2019, the Company was authorized to purchase \$350 million of its common shares; including a \$300 million authorization that was approved by the Board on February 27, 2019. The Company expects to repurchase shares from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program are at the discretion of management and will depend on a variety of factors, including funds available at the parent company, other potential uses for such funds, market conditions, the Company's capital position, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board at any time. It does not have an expiration date. As indicated in Note 14, Related Party Transactions, in 2017 the Company repurchased shares from its Chief Executive Officer and former General Counsel.

Share Repurchases

Year	Number of Shares Repurchased	Total Payments (in millions)	Average Price Paid Per Share
2016	10,721,248	\$ 306	\$ 28.53
2017	12,669,643	\$ 501	\$ 39.57
2018	13,243,107	\$ 500	\$ 37.76

2019 (through March 1, 2019 on a settlement date basis) 1,200,501 \$ 48 \$ 40.03

Deferred Compensation

Certain executives of the Company elected to invest a portion of their AGC SERP accounts in the employer stock fund in the AGC SERP. Each unit in the employer stock fund represents the right to receive one AGL common share upon a distribution from the AGC SERP. Each unit equals the number of AGL common shares which could have been purchased with the value of the account deemed invested in the employer stock fund as of the date of such election. As of December 31, 2018 and 2017, there were 74,309 and 74,309 units, respectively, in the AGC SERP. See Note 19, Employee Benefit Plans.

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Dividends

Any determination to pay cash dividends is at the discretion of the Company's Board, and depends upon the Company's results of operations, cash flows from operating activities, its financial position, capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual restrictions on the payment of dividends, other potential uses for such funds, and any other factors the Company's Board deems relevant. For more information concerning regulatory constraints that affect the Company's ability to pay dividends, see Note 11, Insurance Company Regulatory Requirements.

On February 27, 2019, the Company declared a quarterly dividend of \$0.18 per common share compared with \$0.16 per common share paid in 2018, an increase of 12.5%.

19. Employee Benefit Plans

Accounting Policy

Share-based compensation expense is based on the grant date fair value using the grant date closing price, the lattice, Monte Carlo or Black-Scholes-Merton (Black-Scholes) pricing models. The Company amortizes the fair value of share-based awards on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods, with the exception of retirement eligible employees. For retirement-eligible employees, certain awards contain retirement provisions and therefore are amortized over the period through the date the employee first becomes eligible to retire and is no longer required to provide service to earn part or all of the award.

The fair value of each award under the Assured Guaranty Ltd. Employee Stock Purchase Plan is estimated at the beginning of each offering period using the Black-Scholes option valuation model.

The expense for Performance Retention Plan awards is recognized straight-line over the requisite service period, with the exception of retirement eligible employees. For retirement eligible employees, the expense is recognized immediately.

Assured Guaranty Ltd. 2004 Long-Term Incentive Plan

Under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as amended (the Incentive Plan), the number of AGL common shares that may be delivered under the Incentive Plan may not exceed 18,670,000. In the event of certain transactions affecting AGL's 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 AGL's 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 AGL.

The Incentive Plan is administered by the Compensation Committee of the Board, except as otherwise determined by the Board. The Board may amend or terminate the Incentive Plan. As of December 31, 2018, 9,779,294 common shares were available for grant under the Incentive Plan.

Time Vested Stock Options

Stock options are generally granted once a year with exercise prices equal to the closing price on the date of grant. To date, the Company has only issued non-qualified stock options. All stock options, except for performance stock options, granted to employees vest in equal annual installments over a three-year period and expire seven years or ten years from the date of grant. Stock options granted to directors vest over one year and expire in seven years or ten years from grant date. None of the Company's options, except for performance stock options, have a performance or market condition.

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Time Vested Stock Options

	Options for Common Shares	Weighted Average Exercise Price	Number of Exercisable Options
Balance as of December 31, 2017	838,954	\$ 17.41	838,954
Options granted	—	—	
Options exercised	(465,326)	16.32	
Options forfeited/expired	—	—	
Balance as of December 31, 2018	373,628	\$ 18.77	373,628

As of December 31, 2018, the aggregate intrinsic value and weighted average remaining contractual term of stock options outstanding were \$7.3 million and 1.2 years, respectively. As of December 31, 2018, the aggregate intrinsic value and weighted average remaining contractual term of exercisable stock options were \$7.3 million and 1.2 years, respectively.

No options were granted in 2018, 2017 and 2016. As of December 31, 2018, there were no unexpensed outstanding non-vested options.

The total intrinsic value of stock options exercised during the years ended December 31, 2018, 2017 and 2016 was \$9.9 million, \$6.6 million and \$4.6 million, respectively. During the years ended December 31, 2018, 2017 and 2016, \$2.4 million, \$4.7 million and \$12.0 million, respectively, was received from the exercise of stock options. In order to satisfy stock option exercises, the Company issues new shares.

Performance Stock Options

The Company grants performance stock options under the Incentive Plan. These awards are non-qualified stock options with exercise prices equal to the closing price of an AGL common share on the applicable date of grant. These awards vest 35%, 50% or 100%, if the price of AGL's common shares using the highest 40-day average share price reaches certain hurdles. If the share price is between the specified levels, the vesting level will be interpolated accordingly. These awards expire seven years from the date of grant.

Performance Stock Options

	Options for Common Shares	Weighted Average Exercise Price	Number of Exercisable Options
Balance as of December 31, 2017	190,901	\$ 17.80	190,901
Options granted	—	—	
Options exercised	(163,349)	17.55	
Options forfeited/expired	—	—	
Balance as of December 31, 2018	27,552	\$ 19.24	27,552

As of December 31, 2018, the aggregate intrinsic value and weighted average remaining contractual term of performance stock options outstanding were \$0.5 million and 1.1 years, respectively. As of December 31, 2018, the aggregate intrinsic value and weighted average remaining contractual term of exercisable performance stock options

were \$0.5 million and 1.1 years, respectively.

No options were granted in 2018, 2017 and 2016. As of December 31, 2018, there were no unexpensed outstanding nonvested performance stock options.

The total intrinsic value of performance stock options exercised during the years ended December 31, 2018, 2017 and 2016 was \$3.8 million, \$0.7 million and \$0.04 million, respectively. During the years ended December 31, 2018, 2017 and 2016, \$2.7 million, \$0.2 million and \$0.1 million, respectively, was received from the exercise of performance stock options. In order to satisfy stock option exercises, the Company issues new shares.

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The tax benefit from time vested and performance stock options exercised during 2018 was \$1.5 million

Restricted Stock Awards

Restricted stock awards are valued based on the closing price of the underlying shares at the date of grant. Restricted stock awards to employees generally vest in equal annual installments over a four-year period and restricted stock awards to outside directors vest in full in one year. Restricted stock awards to employees are amortized on a straight-line basis over the requisite service periods of the awards, and restricted stock awards to outside directors are amortized over one year, which are generally the vesting periods, with the exception of retirement eligible employees, discussed above.

Restricted Stock Award Activity

Nonvested Shares	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested at December 31, 2017	50,225	\$ 37.93
Granted	51,746	35.56
Vested	(50,225)	37.93
Forfeited	—	—
Nonvested at December 31, 2018	51,746	\$ 35.56

As of December 31, 2018 the total unrecognized compensation cost related to outstanding nonvested restricted stock awards was \$0.7 million, which the Company expects to recognize over the weighted average remaining service period of 0.4 years. The total fair value of shares vested during the years ended December 31, 2018, 2017 and 2016 was \$1.9 million, \$1.5 million and \$1.6 million, respectively.

Restricted Stock Units

Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Restricted stock units awarded to employees have vesting terms similar to those of the restricted stock awards and are delivered on the vesting date. The Company has granted restricted stock units to directors of the Company.

Restricted Stock Unit Activity

Nonvested Stock Units	Number of Stock Units	Weighted Average Grant Date Fair Value
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		Per Share
Nonvested at December 31, 2017	854,619	\$ 29.67
Granted	336,690	37.91
Vested	(290,588)	26.31
Forfeited	(445)	39.29
Nonvested at December 31, 2018	900,276	\$ 33.83

As of December 31, 2018, the total unrecognized compensation cost related to outstanding nonvested restricted stock units was \$15.2 million, which the Company expects to recognize over the weighted average remaining service period of 1.7 years. The total fair value of restricted stock units vested during the years ended December 31, 2018, 2017 and 2016 was \$8 million, \$7 million and \$2 million, respectively.

Performance Restricted Stock Units

The Company has granted performance restricted stock units under the Incentive Plan. These awards vest 35%, 50%, 100%, or 200%, if AGL's common share price during the relevant three-year performance period reaches certain hurdles. If the performance is between the specified levels, the vesting level will be interpolated accordingly.

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Performance Restricted Stock Unit Activity

Performance Restricted Stock Units	Number of Performance Share Units	Weighted Average Grant Date Fair Value Per Share
Nonvested at December 31, 2017	606,864	\$ 33.80
Granted (1)	390,570	45.64
Vested	(400,706)	14.16
Forfeited	—	—
Nonvested at December 31, 2018 (2)	596,728	\$ 39.42

(1) Includes 200,353 performance restricted stock units that were granted prior to 2018 at a weighted average grant date fair value of \$14.16, but met performance hurdles and vested in February 2018. The weighted average grant date fair value per share excludes these shares.

(2) Excludes 226,317 performance restricted stock units that have met performance hurdles and will be eligible for vesting after December 31, 2018.

As of December 31, 2018, the total unrecognized compensation cost related to outstanding nonvested performance share units was \$9.9 million, which the Company expects to recognize over the weighted average remaining service period of 1.7 years. The total value of performance restricted stock units vested during the years ended December 31, 2018, 2017 and 2016 was based on grant date fair value and was \$6 million, \$8 million and \$2.1 million, respectively.

The Company uses a Monte Carlo model to value its performance restricted stock units.

Monte Carlo Pricing

Weighted Average Assumptions

	2018	2017	2016
Dividend yield	1.68 %	1.37 %	2.12 %
Expected volatility	27.65 %	25.19 %	30.84 %
Risk free interest rate	2.43 %	1.48 %	0.90 %
Weighted average grant date fair value	\$45.64	\$53.74	\$25.62

The expected dividend yield is based on the current expected annual dividend and share price on the grant date. The expected volatility is estimated at the date of grant based on an average of the 3-year historical share price volatility and implied volatilities of certain at-the-money actively traded call options in the Company. The risk-free interest rate is the implied 3-year yield currently available on U.S. Treasury zero-coupon issues at the date of grant. The expected life is based on the 18-month term of the performance period.

Employee Stock Purchase Plan

The Company established the AGL Employee Stock Purchase Plan (Stock Purchase Plan) in accordance with Internal Revenue Code Section 423, and participation 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% of the

participant's compensation or, if less, shares having a value of \$25,000. Participants may purchase shares at a purchase price equal to 85% of the lesser of the fair market value of the stock on the first day or the last day of the subscription period. The Company has reserved for issuance and purchases under the Stock Purchase Plan 600,000 Assured Guaranty Ltd. common shares.

The fair value of each award under the Stock Purchase Plan is estimated at the beginning of each offering period using the Black Scholes option pricing model and the following assumptions: a) the expected dividend yield is based on the current expected annual dividend and share price on the grant date; b) the expected volatility is estimated at the date of grant based on the historical share price volatility, calculated on a daily basis; c) the risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant; and d) the expected life is based on the term of the offering period.

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Stock Purchase Plan

	Year Ended December 31,		
	2018	2017	2016
	(dollars in millions)		
Proceeds from purchase of shares by employees	\$1.2	\$ 1.0	\$ 0.9
Number of shares issued by the Company	39,533	33,666	39,055
Recorded in share-based compensation, net of deferral	\$0.3	\$ 0.3	\$ 0.2

Share Based Compensation Expense

The following table presents stock based compensation costs and the amount of such costs that are deferred as policy acquisition costs, pre-tax. Amortization of previously deferred stock compensation costs is not shown in the table below.

Share Based Compensation Expense Summary

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Share based compensation expense	\$19	\$ 16	\$ 13
Share based compensation capitalized as DAC	0.8	0.6	0.4
Income tax benefit	3	2	3

Defined Contribution Plan

The Company maintains a savings incentive plan, which is qualified under Section 401(a) of the Internal Revenue Code for U.S. employees. The savings incentive plan is available to eligible full-time employees upon hire. Eligible participants could contribute a percentage of their salary subject to a maximum of \$18,500 for 2018. Contributions are matched by the Company at a rate of 100% up to 6% of participant's compensation, subject to IRS limitations. Any amounts over the IRS limits are contributed to and matched by the Company into a nonqualified supplemental executive retirement plan for employees eligible to participate in such nonqualified plan. The Company also makes a core contribution of 6% of the participant's compensation to the qualified plan, subject to IRS limitations, and the nonqualified supplemental executive retirement plan for eligible employees, regardless of whether the employee contributes to the plan(s). Employees become fully vested in Company contributions after one year of service, as defined in the plan. Plan eligibility is immediate upon hire. The Company also maintains similar non-qualified plans for non-U.S. employees.

The Company recognized defined contribution expenses of \$12 million, \$11 million and \$11 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Cash-Based Compensation Plans

The Company's executive officers are eligible to receive compensation under a non-equity incentive plan. For an applicable performance year, the Compensation Committee establishes target financial performance measures and non-financial objectives for the executive officers. Most employees other than executive officers are eligible to receive

discretionary bonuses.

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20. Other Comprehensive Income

The following tables present the changes in each component of AOCI and the effect of reclassifications out of AOCI on the respective line items in net income.

Changes in Accumulated Other Comprehensive Income by Component
Year Ended December 31, 2018

	Net Unrealized Gains (Losses) on Investments with OTTI	Net Unrealized Gains (Losses) on Investments with OTTI	Net Unrealized Gains (Losses) on FG VIEs' Liabilities with Recourse due to ISCR	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
	(in millions)					
Balance, December 31, 2017	\$273	\$ 120	\$ —	\$ (29)	\$ 8	\$ 372
Effect of adoption of ASU 2016-01	1	—	(33)	—	—	(32)
Other comprehensive income (loss) before reclassifications	(208)	(58)	(5)	(8)	—	(279)
Less: Amounts reclassified from AOCI to:						
Net realized investment gains (losses)	7	(38)	—	—	—	(31)
Fair value gains (losses) on FG VIEs	—	—	(9)	—	—	(9)
Interest expense	—	—	—	—	—	0
Total before tax	7	(38)	(9)	—	—	(40)
Tax (provision) benefit	—	6	2	—	—	8
Total amount reclassified from AOCI, net of tax	7	(32)	(7)	—	—	(32)
Net current period other comprehensive income (loss)	(215)	(26)	2	(8)	—	(247)
Balance, December 31, 2018	\$59	\$ 94	\$ (31)	\$ (37)	\$ 8	\$ 93

Table of ContentsChanges in Accumulated Other Comprehensive Income by Component
Year Ended December 31, 2017

	Net Unrealized Gains (Losses) on Investments with no Other-Than- Temporary Impairment (in millions)	Net Realized Gains (Losses) on Investments with Other-Than- Temporary Impairment (in millions)	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2016	\$171	\$ 10	\$ (39)	\$ 7	\$ 149
Reclassification of stranded tax effects (see Note 1)	38	21	(5)	2	56
Other comprehensive income (loss) before reclassifications	128	69	15	—	212
Less: Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	71	(31)	—	—	40
Net investment income	27	1	—	—	28
Interest expense	—	—	—	1	1
Total before tax	98	(30)	—	1	69
Tax (provision) benefit	(34)	10	—	—	(24)
Total amount reclassified from AOCI, net of tax	64	(20)	—	1	45
Net current period other comprehensive income (loss)	64	89	15	(1)	167
Balance, December 31, 2017	\$273	\$ 120	\$ (29)	\$ 8	\$ 372

Changes in Accumulated Other Comprehensive Income by Component
Year Ended December 31, 2016

	Net Unrealized Gains (Losses) on Investments with no Other-Than- Temporary Impairment (in millions)	Net Realized Gains (Losses) on Investments with Other-Than- Temporary Impairment (in millions)	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2015	\$260	\$ (15)	\$ (16)	\$ 8	\$ 237
Other comprehensive income (loss) before reclassifications	(71)	(9)	(23)	—	(103)
Less: Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	23	(52)	—	—	(29)
Net investment income	3	—	—	—	3
Interest expense	—	—	—	1	1
Total before tax	26	(52)	—	1	(25)
Tax (provision) benefit	(8)	18	—	—	10
Total amount reclassified from AOCI, net of tax	18	(34)	—	1	(15)

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Net current period other comprehensive income (loss)	(89) 25	(23) (1) (88)
Balance, December 31, 2016	\$171 \$ 10	\$ (39) \$ 7 \$ 149

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21. Subsidiary Information

The following tables present the condensed consolidating financial information for AGUS and AGMH, 100%-owned subsidiaries of AGL, which have issued publicly traded debt securities that are fully and unconditionally guaranteed by AGL (see Note 16, Long Term Debt and Credit Facilities). The information for AGL, AGUS and AGMH presents their subsidiaries on the equity method of accounting. The following tables reflect transfers of businesses between entities within the consolidated group consistently for all prior periods presented.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2018

(in millions)

	Assured Guaranty Ltd (Parent)	AGUS Ltd(Issuer) (1)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 45	\$ 334	\$ 23	\$ 11,000	\$ (425)	) \$ 10,977
Investment in subsidiaries	6,440	5,835	3,991	226	(16,492)) —
Premiums receivable, net of commissions payable	—	—	—	1,071	(167)	) 904
Ceded unearned premium reserve	—	—	—	958	(899)	) 59
Deferred acquisition costs	—	—	—	143	(38)	) 105
Deferred tax asset, net	—	—	—	162	(94)	) 68
Intercompany loan receivable	—	—	—	50	(50)) —
FG VIEs' assets, at fair value	—	—	—	569	—	) 569
Dividends receivable from affiliate	60	—	—	—	(60)) —
Other	29	66	24	1,479	(677)	) 921
TOTAL ASSETS	\$ 6,574	\$ 6,235	\$ 4,038	\$ 15,658	\$ (18,902)	) \$ 13,603
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$ —	\$ —	\$ 4,452	\$ (940)	) \$ 3,512
Loss and LAE reserve	—	—	—	1,467	(290)	) 1,177
Long-term debt	—	844	468	5	(84)	) 1,233
Intercompany loan payable	—	50	—	300	(350)) —
Credit derivative liabilities	—	—	—	236	(27)	) 209
Deferred tax liabilities, net	—	49	50	—	(99)) —
FG VIEs' liabilities, at fair value	—	—	—	619	—	) 619
Dividends payable to affiliate	—	60	—	—	(60)) —
Other	19	3	17	763	(504)	) 298
TOTAL LIABILITIES	19	1,006	535	7,842	(2,354)	) 7,048
TOTAL SHAREHOLDERS' EQUITY						
ATTRIBUTABLE TO ASSURED GUARANTY LTD.	6,555	5,229	3,503	7,590	(16,322)	) 6,555
Noncontrolling interest	—	—	—	226	(226)) —
TOTAL SHAREHOLDERS' EQUITY	6,555	5,229	3,503	7,816	(16,548)	) 6,555
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,574	\$ 6,235	\$ 4,038	\$ 15,658	\$ (18,902)	) \$ 13,603

(1) The fair value of investment in AGMH's debt recorded in the AGUS investment portfolio was \$125 million. See Note 16, Long-Term Debt and Credit Facilities for more information.

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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2017

(in millions)

	Assured Guaranty (Parent)	AGUS Ltd(Issuer) (1)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 36	\$319	\$28	\$11,484	\$ (328)	\$ 11,539
Investment in subsidiaries	6,794	6,126	4,048	216	(17,184)	—
Premiums receivable, net of commissions payable	—	—	—	1,074	(159)	915
Ceded unearned premium reserve	—	—	—	1,002	(883)	119
Deferred acquisition costs	—	—	—	144	(43)	101
Deferred tax asset, net	—	59	—	93	(54)	98
Intercompany loan receivable	—	—	—	60	(60)	—
FG VIEs' assets, at fair value	—	—	—	700	—	700
Other	26	—	40	1,643	(748)	961
TOTAL ASSETS	\$ 6,856	\$6,504	\$4,116	\$16,416	\$ (19,459)	\$ 14,433
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$—	\$—	\$4,423	\$ (948)	\$ 3,475
Loss and LAE reserve	—	—	—	1,793	(349)	1,444
Long-term debt	—	843	461	6	(18)	1,292
Intercompany loan payable	—	60	—	300	(360)	—
Credit derivative liabilities	—	—	—	308	(37)	271
Deferred tax liabilities, net	—	—	51	—	(51)	—
FG VIEs' liabilities, at fair value	—	—	—	757	—	757
Other	17	59	20	740	(481)	355
TOTAL LIABILITIES	17	962	532	8,327	(2,244)	7,594
TOTAL SHAREHOLDERS' EQUITY						
ATTRIBUTABLE TO ASSURED GUARANTY LTD.	6,839	5,542	3,584	7,873	(16,999)	6,839
Noncontrolling interest	—	—	—	216	(216)	—
TOTAL SHAREHOLDERS' EQUITY	6,839	5,542	3,584	8,089	(17,215)	6,839
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,856	\$6,504	\$4,116	\$16,416	\$ (19,459)	\$ 14,433

(1) The fair value of investment in AGMH's debt recorded in the AGUS investment portfolio was \$28 million. See Note 16, Long-Term Debt and Credit Facilities for more information.

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$ —	\$ —	\$ 563	\$ (15)	\$ 548
Net investment income	1	9	1	401	(14)	398
Net realized investment gains (losses)	—	—	—	(32)	—	(32)
Net change in fair value of credit derivatives	—	—	—	112	—	112
Other	12	—	—	190	(226)	(24)
TOTAL REVENUES	13	9	1	1,234	(255)	1,002
EXPENSES						
Loss and LAE	—	—	—	70	(6)	64
Amortization of deferred acquisition costs	—	—	—	21	(5)	16
Interest expense	—	49	54	10	(19)	94
Other operating expenses	41	10	—	394	(197)	248
TOTAL EXPENSES	41	59	54	495	(227)	422
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(28)	(50)	(53)	739	(28)	580
Total (provision) benefit for income taxes	—	52	11	(123)	1	(59)
Equity in net earnings of subsidiaries	549	412	277	24	(1,262)	—
NET INCOME (LOSS)	521	414	235	640	(1,289)	521
Less: noncontrolling interest	—	—	—	24	(24)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 521	\$ 414	\$ 235	\$ 616	\$ (1,265)	\$ 521
COMPREHENSIVE INCOME (LOSS)	\$ 274	\$ 218	\$ 107	\$ 395	\$ (720)	\$ 274

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$ —	\$ —	\$ 728	\$ (38)	) \$ 690
Net investment income	—	2	—	427	(11)	) 418
Net realized investment gains (losses)	—	—	—	45	(5)	) 40
Net change in fair value of credit derivatives	—	—	—	111	—	) 111
Bargain purchase gain and settlement of pre-existing relationships	—	—	—	58	—	) 58
Other	10	—	—	608	(196)	) 422
TOTAL REVENUES	10	2	—	1,977	(250)	) 1,739
EXPENSES						
Loss and LAE	—	—	—	327	61	) 388
Amortization of deferred acquisition costs	—	—	—	26	(7)	) 19
Interest expense	—	47	54	11	(15)	) 97
Other operating expenses	38	12	1	394	(201)	) 244
TOTAL EXPENSES	38	59	55	758	(162)	) 748
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(28)	) (57)	(55)	) 1,219	(88)	) 991
Total (provision) benefit for income taxes	—	17	54	(359)	) 27	(261)
Equity in net earnings of subsidiaries	758	636	395	32	(1,821)) —
NET INCOME (LOSS)	730	596	394	892	(1,882)	) 730
Less: noncontrolling interest	—	—	—	32	(32)) —
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 730	\$ 596	\$ 394	\$ 860	\$ (1,850)) \$ 730
COMPREHENSIVE INCOME (LOSS)	\$ 897	\$ 754	\$ 482	\$ 1,084	\$ (2,320)) \$ 897

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$ —	\$ —	\$ 892	\$ (28)	\$ 864
Net investment income	—	—	—	412	(4)	408
Net realized investment gains (losses)	—	2	—	(28)	(3)	(29)
Net change in fair value of credit derivatives	—	—	—	98	—	98
Bargain purchase gain and settlement of pre-existing relationships	—	—	—	257	2	259
Other	—	—	—	78	(1)	77
TOTAL REVENUES	—	2	—	1,709	(34)	1,677
EXPENSES						
Loss and LAE	—	—	—	296	(1)	295
Amortization of deferred acquisition costs	—	—	—	30	(12)	18
Interest expense	—	52	54	10	(14)	102
Other operating expenses	29	2	2	217	(5)	245
TOTAL EXPENSES	29	54	56	553	(32)	660
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(29)	(52)	(56)	1,156	(2)	1,017
Total (provision) benefit for income taxes	—	18	20	(175)	1	(136)
Equity in net earnings of subsidiaries	910	794	274	44	(2,022)	—
NET INCOME (LOSS)	881	760	238	1,025	(2,023)	881
Less: noncontrolling interest	—	—	—	44	(44)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 881	\$ 760	\$ 238	\$ 981	\$ (1,979)	\$ 881
COMPREHENSIVE INCOME (LOSS)	\$ 793	\$ 685	\$ 144	\$ 953	\$ (1,782)	\$ 793

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Net cash flows provided by (used in) operating activities	\$ 587	\$ 308	\$ 183	\$ 517	\$ (1,133)	\$ 462
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	—	(104)	(12)	(1,865)	100	(1,881)
Sales	—	104	8	1,068	—	1,180
Maturities	—	28	—	934	—	962
Short-term investments with maturities of over three months:						
Purchases	—	(34)	—	(209)	—	(243)
Sales	—	22	—	1	—	23
Maturities	—	—	—	207	—	207
Net sales (purchases) of short-term investments with maturities of less than three months	(9)	(50)	7	(32)	—	(84)
Net proceeds from FG VIEs' assets	—	—	—	116	—	116
Investment in subsidiaries	—	(9)	(1)	(1)	11	—
Intercompany debt	—	—	—	10	(10)	—
Return of capital from subsidiary	—	200	—	—	(200)	—
Other	—	(15)	—	32	—	17
Net cash flows provided by (used in) investing activities	(9)	142	2	261	(99)	297
Cash flows from financing activities						
Capital contribution	—	—	—	11	(11)	—
Dividends paid	(71)	(472)	(187)	(474)	1,133	(71)
Repurchases of common stock	(500)	—	—	(200)	200	(500)
Repurchases of common stock to pay withholding taxes	(13)	—	—	—	—	(13)
Net paydowns of FG VIEs' liabilities	—	—	—	(116)	—	(116)
Paydown of long-term debt	—	—	—	(1)	(100)	(101)
Proceeds from options exercises	6	—	—	—	—	6
Intercompany debt	—	(10)	—	—	10	—
Net cash flows provided by (used in) financing activities	(578)	(482)	(187)	(780)	1,232	(795)
Effect of exchange rate changes	—	—	—	(4)	—	(4)
Increase (decrease) in cash and restricted cash	—	(32)	(2)	(6)	—	(40)
Cash and restricted cash at beginning of period	—	33	2	109	—	144
Cash and restricted cash at end of period	\$ —	\$ 1	\$ —	\$ 103	\$ —	\$ 104

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Net cash flows provided by (used in) operating activities	\$ 579	\$ 442	\$ 158	\$ 477	\$ (1,223)	\$ 433
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	—	(158)	(17)	(2,404)	27	(2,552)
Sales	—	112	21	1,568	—	1,701
Maturities	—	13	—	808	—	821
Short-term investments with maturities of over three months:						
Purchases	—	(26)	(5)	(224)	—	(255)
Sales	—	1	5	96	—	102
Maturities	—	30	—	161	—	191
Net sales (purchases) of short-term investments with maturities of less than three months	—	126	(8)	(82)	—	36
Net proceeds from FG VIEs' assets	—	—	—	147	—	147
Investment in subsidiaries	—	(28)	—	(139)	167	—
Intercompany debt	—	—	—	10	(10)	—
Proceeds from sale of subsidiaries	—	—	—	139	(139)	—
Return of capital from subsidiaries	—	—	101	70	(171)	—
Acquisition of MBIA UK, net of cash acquired	—	—	—	95	—	95
Other	—	—	—	59	—	59
Net cash flows provided by (used in) investing activities	—	70	97	304	(126)	345
Cash flows from financing activities						
Return of capital	—	—	—	(70)	70	—
Capital contribution	—	—	25	3	(28)	—
Dividends paid	(70)	(470)	(278)	(475)	1,223	(70)
Repurchases of common stock	(501)	—	—	(101)	101	(501)
Repurchases of common stock to pay withholding taxes	(13)	—	—	—	—	(13)
Net paydowns of FG VIEs' liabilities	—	—	—	(157)	—	(157)
Paydown of long-term debt	—	—	—	(3)	(27)	(30)
Proceeds from options exercised	5	—	—	—	—	5
Intercompany debt	—	(10)	—	—	10	—
Net cash flows provided by (used in) financing activities	(579)	(480)	(253)	(803)	1,349	(766)
Effect of exchange rate changes	—	—	—	5	—	5
Increase (decrease) in cash and restricted cash	—	32	2	(17)	—	17
Cash and restricted cash at beginning of period	—	1	—	126	—	127
Cash and restricted cash at end of period	\$ —	\$ 33	\$ 2	\$ 109	\$ —	\$ 144

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2016
 (in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Net cash flows provided by (used in) operating activities	\$ 391	\$ 533	\$ 213	\$ 72	\$ (1,341)	\$ (132)
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	(4)	(143)	(10)	(1,489)	—	(1,646)
Sales	4	24	12	1,325	—	1,365
Maturities	—	30	—	1,125	—	1,155
Short-term investments with maturities of over three months:						
Purchases	—	(19)	(1)	(170)	—	(190)
Sales	—	—	—	172	—	172
Maturities	—	14	1	119	—	134
Net sales (purchases) of short-term investments with maturities of less than three months	(26)	(232)	(10)	169	—	(99)
Net proceeds from FG VIEs' assets	—	—	—	629	—	629
Intercompany debt	—	—	—	20	(20)	—
Return of capital from subsidiaries	—	—	300	4	(304)	—
Acquisition of CIFG, net of cash acquired	—	—	—	(442)	7	(435)
Other	—	7	—	(9)	(7)	(9)
Net cash flows provided by (used in) investing activities	(26)	(319)	292	1,453	(324)	1,076
Cash flows from financing activities						
Return of capital	—	—	—	(4)	4	—
Dividends paid	(69)	(288)	(513)	(540)	1,341	(69)
Repurchases of common stock	(306)	—	—	(300)	300	(306)
Repurchases of common stock to pay withholding taxes	(2)	—	—	—	—	(2)
Net paydowns of FG VIEs' liabilities	—	—	—	(611)	—	(611)
Paydown of long-term debt	—	—	—	(2)	—	(2)
Proceeds from options exercised	12	—	—	—	—	12
Intercompany debt	—	(20)	—	—	20	—
Net cash flows provided by (used in) financing activities	(365)	(308)	(513)	(1,457)	1,665	(978)
Effect of exchange rate changes	—	—	—	(5)	—	(5)
Increase (decrease) in cash and restricted cash	—	(94)	(8)	63	—	(39)
Cash and restricted cash at beginning of period	—	95	8	63	—	166
Cash and restricted cash at end of period	\$ —	\$ 1	\$ —	\$ 126	\$ —	\$ 127

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22. Quarterly Financial Information (Unaudited)

A summary of selected quarterly information follows:

2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(dollars in millions, except per share data)				
Revenues					
Net earned premiums	\$ 145	\$ 136	\$ 142	\$ 125	\$ 548
Net investment income	101	99	98	100	398
Net realized investment gains (losses)	(5)	(2)	(7)	(18)	(32)
Net change in fair value of credit derivatives	34	48	21	9	112
Fair value gains (losses) on FG VIEs					
Commutation gains	1	(18)	1	—	(16)
Other income (loss)	3	(44)	14	(5)	(22)
Expenses					
Loss and LAE	(18)	44	17	21	64
Amortization of DAC	5	4	3	4	16
Interest expense	24	24	23	23	94
	65	62	56	65	248

Other operating expenses						
Income (loss) before provision for income taxes	2017	87	175	101	580	
Provision (benefit) for income taxes	20	12	14	13	59	
Net income (loss)	2017	75	161	88	521	
Earnings (loss) per share(1):						
Basic	2017	\$1.71	\$0.67	\$1.48	\$0.84	\$4.73
Diluted	2017	\$1.68	\$0.67	\$1.47	\$0.83	\$4.68

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2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(dollars in millions, except per share data)				
Revenues					
Net earned premiums	\$ 164	\$ 162	\$ 186	\$ 178	\$ 690
Net investment income	122	101	99	96	418
Net realized investment gains (losses)	12	15	7	(14)	40
Net change in fair value of credit derivatives	54	(6)	58	5	111
Fair value gains (losses) on FG VIEs					
Bargain purchase gain and settlement of pre-existing relationships	58	—	—	—	58
Commutation gains	73	—	255	—	328
Other income (loss)	14	24	15	11	64
Expenses					
Loss and LAE	59	72	223	34	388
Amortization of DAC	4	4	5	6	19
Interest expense	24	25	24	24	97

Other operating expenses	57	58	61	244
Income (loss) before provision for income taxes	372	150	313	156
Provision (benefit) for income taxes	55	(3)	105	104
Net income (loss) per share(1):				
Basic	\$2.53	\$1.26	\$1.75	\$0.44
Diluted	\$2.49	\$1.24	\$1.72	\$0.44
				\$6.05
				\$5.96

(1) Per share amounts for the quarters and the full years have each been calculated separately. Accordingly, quarterly amounts may not sum up to the annual amounts because of differences in the average common shares outstanding during each period and, with regard to diluted per share amounts only, because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

There has been no change in the Company's internal controls over financial reporting during the Company's quarter ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's

internal controls over financial reporting.

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Management's Report on Internal Control over Financial Reporting

The management of AGL is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed by, or under the supervision of the Company's President and Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with GAAP.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control-Integrated Framework. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018 based on criteria in the 2013 Internal Control- Integrated Framework issued by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their "Report of Independent Registered Public Accounting Firm" included in Item 8, Financial Statements and Supplementary Data.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information pertaining to this item is incorporated by reference to the sections entitled “Proposal No. 1: Election Of Directors”, “Corporate Governance—Did Our Insiders Comply With Section 16(a) Beneficial Ownership Reporting In 2018?”, “Corporate Governance—How Are Directors Nominated?” and “Corporate Governance—Committees Of The Board—The Audit Committee” of the definitive proxy statement for the Annual General Meeting of Shareholders, which involves the election of directors and will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

Information about the executive officers of AGL is set forth at the end of Part I of this Form 10-K and is hereby incorporated by reference.

Code of Conduct

The Company has adopted a Code of Conduct, which sets forth standards by which all employees, officers and directors of the Company must abide as they work for the Company. The Code of Conduct is available at www.assuredguaranty.com/governance. The Company intends to disclose on its internet site any amendments to, or waivers from, its Code of Conduct that are required to be publicly disclosed pursuant to the rules of the SEC or the NYSE.

ITEM 11. EXECUTIVE
COMPENSATION

This item is incorporated by reference to the sections entitled “Executive Compensation”, “Corporate Governance—Compensation Committee Interlocking And Insider Participation” and “Corporate Governance—How Are Directors Compensated?” of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND
RELATED STOCKHOLDER MATTERS

This item is incorporated by reference to the sections entitled "Information About Our Common Share Ownership" and "Equity Compensation Plans Information" of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This item is incorporated by reference to the sections entitled “Corporate Governance—What Is Our Related Person Transactions Approval Policy And What Procedures Do We Use To Implement It?”, “Corporate Governance—What Related Person Transactions Do We Have?” and “Corporate Governance—Director Independence” of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

This item is incorporated by reference to the section entitled “Proposal No. 4: Appointment Of Independent Auditor—Independent Auditor Fee Information” and “Proposal No. 4: Appointment Of Independent Auditor—Pre-Approval Policy Of Audit And Non-Audit Services” of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedules and Exhibits

1. Financial Statements

The following financial statements of Assured Guaranty Ltd. have been included in Part II, Item 8, Financial Statements and Supplementary Data, hereof:

<u>Report of Independent Registered Public Accounting Firm</u>	<u>124</u>
<u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>	<u>126</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016</u>	<u>127</u>
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016</u>	<u>128</u>
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016</u>	<u>129</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016</u>	<u>130</u>
<u>Notes to Consolidated Financial Statements</u>	<u>131</u>

2. Financial Statement Schedules

The financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits*

Exhibit Description of Document
Number

3.1	<u>Certificate of Incorporation and Memorandum of Association of the Registrant, as amended by Certificate of Incorporation on Change of Name dated March 30, 2004 and Certificate of Deposit of Memorandum of Increase of Capital dated April 21, 2004 (Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 2009)</u>
3.2	<u>First Amended and Restated Bye-laws of the Registrant, as amended (Incorporated by reference to Exhibit 3.1 to Form 8-K filed on May 10, 2011)</u>
4.1	<u>Specimen Common Share Certificate (Incorporated by reference to Exhibit 4.1 to Form S-1 (#333-111491))</u>
4.2	<u>Certificate of Incorporation and Memorandum of Association of the Registrant, as amended by Certificate of Incorporation on Change of Name dated March 30, 2004 and Certificate of Deposit of Memorandum of Increase of Capital dated April 21, 2004 (See Exhibit 3.1)</u>
4.3	<u>Bye-laws of the Registrant (See Exhibit 3.2)</u>
4.4	<u>Indenture, dated as of May 1, 2004, among the Company, Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended March 31, 2004)</u>
4.5	<u>Indenture, dated as of December 1, 2006, entered into among Assured Guaranty Ltd., Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on December 20, 2006)</u>
4.6	<u>First Supplemental Subordinated Indenture, dated as of December 20, 2006, entered into among Assured Guaranty Ltd., Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by</u>

reference to Exhibit 4.2 to Form 8-K filed on December 20, 2006)

- 4.7 Replacement Capital Covenant, dated as of December 20, 2006, between Assured Guaranty U.S. Holdings Inc. and Assured Guaranty Ltd., in favor of and for the benefit of each Covered Debtholder (as defined therein) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on December 20, 2006)
- 4.8 Replacement Capital Covenant, dated as of November 22, 2006, by Financial Security Assurance Holdings Ltd. (Incorporated by reference to Exhibit 10.5 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 28, 2006)

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Exhibit Description of Document
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- 4.9 Amended and Restated Trust Indenture dated as of February 24, 1999 between Financial Security Assurance Holdings Ltd. and the Senior Debt Trustee (Incorporated by reference to Exhibit 4.1 to Financial Security Assurance Holdings Ltd.'s Registration Statement to Form S-3 (#333-74165))
- 4.10 Form of Assured Guaranty Municipal Holdings Inc., formerly known as Financial Security Assurance Holdings Ltd. 67/8% Quarterly Interest Bond Securities due 2101 (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended March 31, 2010)
- 4.11 Form of Assured Guaranty Municipal Holdings Inc., formerly known as Financial Security Assurance Holdings Ltd. 6.25% Notes due November 1, 2102 (Incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended March 31, 2010)
- 4.12 Form of Assured Guaranty Municipal Holdings Inc., formerly known as Financial Security Assurance Holdings Ltd. 5.60% Notes due July 15, 2103 (Incorporated by reference to Exhibit 4.3 to Form 10-Q for the quarter ended March 31, 2010)
- 4.13 Supplemental indenture, dated as of August 26, 2009, between Assured Guaranty Ltd., Financial Security Assurance Holdings Ltd. and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 1, 2009)
- 4.14 Indenture, dated as of November 22, 2006, between Financial Security Assurance Holdings Ltd. and The Bank of New York, as Trustee (Incorporated by reference to Exhibit 4.1 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 28, 2006)
- 4.15 Form of Financial Security Assurance Holdings Ltd. Junior Subordinated Debenture, Series 2006-1 (Incorporated by reference to Exhibit 10.3 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 28, 2006)
- 4.16 Supplemental indenture, dated as of August 26, 2009, between Assured Guaranty Ltd., Financial Security Assurance Holdings Ltd. and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 99.2 to Form 8-K filed on September 1, 2009)
- 4.17 Officers' Certificate, dated June 20, 2014, related to 5.000% Senior Notes due 2024, containing form of 5.000% Senior Notes due 2024 as Exhibit A thereto (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on June 20, 2014)
- 10.1 Guaranty by Assured Guaranty Re Ltd. in favor of Assured Guaranty Re Overseas Ltd., effective as of January 1, 2019
- 10.2 Put Agreement between Assured Guaranty Corp. and Woodbourne Capital Trust [I][II][III][IV] (Incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended March 31, 2005)
- 10.3 Custodial Trust Expense Reimbursement Agreement (Incorporated by reference to Exhibit 10.7 to Form 10-Q for the quarter ended March 31, 2005)
- 10.4 Assured Guaranty Corp. Articles Supplementary Classifying and Designating Series of Preferred Stock as Series A Perpetual Preferred Stock, Series B Perpetual Preferred Stock, Series C Perpetual Preferred Stock, Series D Perpetual Preferred Stock (Incorporated by reference to Exhibit 10.8 to Form 10-Q for the quarter ended March 31, 2005)
- 10.5 Purchase Agreement among Dexia Holdings Inc., Dexia Crédit Local S.A. and the Company dated as of November 14, 2008 (Incorporated by reference to Exhibit 99.1 to Form 8-K filed on November 17, 2008)
- 10.6 Amended and Restated Revolving Credit Agreement dated as of June 30, 2009 among FSA Asset Management LLC, Dexia Crédit Local S.A. and Dexia Bank Belgium S.A. (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on July 8, 2009)
- 10.7 First Amendment to Amended and Restated Revolving Credit Agreement dated as of September 20, 2010 among FSA Asset Management LLC, Dexia Crédit Local S.A. and Dexia Bank Belgium S.A. (Incorporated by reference to Exhibit 10.11 to Form 10-K for the year ended December 31, 2013)

- 10.8 Second Amendment to Amended and Restated Revolving Credit Agreement dated as of May 16, 2012 among FSA Asset Management LLC, Dexia Crédit Local S.A. and Dexia Bank Belgium S.A. (Incorporated by reference to Exhibit 10.12 to Form 10-K for the year ended December 31, 2013)
- 10.9 Assignment Pursuant to the Amended and Restated Revolving Credit Agreement, as amended, dated as of December 12, 2013 between Belfius Bank SA/NV and Dexia Crédit Local S.A. (Incorporated by reference to Exhibit 10.13 to Form 10-K for the year ended December 31, 2013)
- 10.10 ISDA Master Agreement (Multicurrency-Cross Border) dated as of June 30, 2009 among Dexia SA, Dexia Crédit Local S.A. and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.3.1 to Form 8-K filed on July 8, 2009)

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Table of ContentsExhibit Description of Document
Number

- 10.11 Schedule to the 1992 Master Agreement, Guaranteed Put Contract, dated as of June 30, 2009 among Dexia Crédit Local S.A., Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.3.2 to Form 8-K filed on July 8, 2009)
- 10.12 Put Option Confirmation, Guaranteed Put Contract, dated June 30, 2009 to FSA Asset Management LLC from Dexia SA and Dexia Crédit Local S.A. (Incorporated by reference to Exhibit 10.3.3 to Form 8-K filed on July 8, 2009)
- 10.13 ISDA Credit Support Annex (New York Law) to the Schedule to the ISDA Master Agreement, Guaranteed Put Contract, dated as of June 30, 2009 between Dexia Crédit Local S.A. and Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.3.4 to Form 8-K filed on July 8, 2009)
- 10.14 ISDA Master Agreement (Multicurrency-Cross Border) dated as of June 30, 2009 among Dexia SA, Dexia Crédit Local S.A. and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.4.1 to Form 8-K filed on July 8, 2009)
- 10.15 Schedule to the 1992 Master Agreement, Non-Guaranteed Put Contract, dated as of June 30, 2009 among Dexia Crédit Local S.A., Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.4.2 to Form 8-K filed on July 8, 2009)
- 10.16 Put Option Confirmation, Non-Guaranteed Put Contract, dated June 30, 2009 to FSA Asset Management LLC from Dexia SA and Dexia Crédit Local S.A. (Incorporated by reference to Exhibit 10.4.3 to Form 8-K filed on July 8, 2009)
- 10.17 ISDA Credit Support Annex (New York Law) to the Schedule to the ISDA Master Agreement, Non-Guaranteed Put Contract, dated as of June 30, 2009 between Dexia Crédit Local S.A. and Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.4.4 to Form 8-K filed on July 8, 2009)
- 10.18 First Demand Guarantee Relating to the "Financial Products" Portfolio of FSA Asset Management LLC issued by the Belgian State and the French State and executed as of June 30, 2009 (Incorporated by reference to Exhibit 10.5 to Form 8-K filed on July 8, 2009)
- 10.19 Guaranty, dated as of June 30, 2009, made jointly and severally by Dexia SA and Dexia Crédit Local S.A., in favor of Financial Security Assurance Inc. (Incorporated by reference to Exhibit 10.6 to Form 8-K filed on July 8, 2009)
- 10.20 Indemnification Agreement (GIC Business) dated as of June 30, 2009 by and among Financial Security Assurance Inc., Dexia Crédit Local S.A. and Dexia SA (Incorporated by reference to Exhibit 10.7 to Form 8-K filed on July 8, 2009)
- 10.21 Pledge and Administration Agreement, dated as of June 30, 2009, among Dexia SA, Dexia Crédit Local S.A., Dexia Bank Belgium SA, Dexia FP Holdings Inc., Financial Security Assurance Inc., FSA Asset Management LLC, FSA Portfolio Asset Limited, FSA Capital Markets Services LLC, FSA Capital Markets Services (Caymans) Ltd., FSA Capital Management Services LLC and The Bank of New York Mellon Trust Company, National Association (Incorporated by reference to Exhibit 10.8 to Form 8-K filed on July 8, 2009)
- 10.22 Separation Agreement, dated as of July 1, 2009, among Dexia Crédit Local S.A., Financial Security Assurance Inc., Financial Security Assurance International, Ltd., FSA Global Funding Limited and Premier International Funding Co. (Incorporated by reference to Exhibit 10.9 to Form 8-K filed on July 8, 2009)
- 10.23 Funding Guaranty, dated as of July 1, 2009, made by Dexia Crédit Local S.A. in favor of Financial Security Assurance Inc. and Financial Security Assurance International, Ltd. (Incorporated by reference to Exhibit 10.10 to Form 8-K filed on July 8, 2009)
- 10.24 Reimbursement Guaranty, dated as of July 1, 2009, made by Dexia Crédit Local S.A. in favor of Financial Security Assurance Inc. and Financial Security Assurance International, Ltd. (Incorporated by reference to Exhibit 10.11 to Form 8-K filed on July 8, 2009)
- 10.25

Indemnification Agreement (FSA Global Business), dated as of July 1, 2009, by and between Financial Security Assurance Inc., Assured Guaranty Ltd. and Dexia Crédit Local S.A. (Incorporated by reference to Exhibit 10.13 to Form 8-K filed on July 8, 2009)

10.26 Pledge and Administration Annex Amendment Agreement dated as of July 1, 2009 among Dexia SA, Dexia Crédit Local S.A., Dexia Bank Belgium SA, Dexia FP Holdings Inc., Financial Security Assurance Inc., FSA Asset Management LLC, FSA Portfolio Asset Limited, FSA Capital Markets Services LLC, FSA Capital Markets Services (Caymans) Ltd., FSA Capital Management Services LLC and The Bank of New York Mellon Trust Company, National Association (Incorporated by reference to Exhibit 10.14 to Form 8-K filed on July 8, 2009)

10.27 Put Confirmation Annex Amendment Agreement dated as of July 1, 2009 among Dexia SA and Dexia Crédit Local S.A. and FSA Asset Management LLC and Financial Security Assurance Inc. (Incorporated by reference to Exhibit 10.15 to Form 8-K filed on July 8, 2009)

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Exhibit Description of Document
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10.28	<u>Master Repurchase Agreement between FSA Capital Management Services LLC and FSA Capital Markets Services LLC (Incorporated by reference to Exhibit 10.20 to Form 10-Q for the quarter ended June 30, 2009)</u>
10.29	<u>Confirmation to Master Repurchase Agreement (Incorporated by reference to Exhibit 10.21 to Form 10-Q for the quarter ended June 30, 2009)</u>
10.30	<u>Master Repurchase Agreement Annex I (Incorporated by reference to Exhibit 10.22 to Form 10-Q for the quarter ended June 30, 2009)</u>
10.31	<u>Pledge and Intercreditor Agreement, among Dexia Crédit Local, Dexia Bank Belgium S.A., Financial Security Assurance Inc. and FSA Asset Management LLC, dated November 13, 2008 (Incorporated by reference to Exhibit 10.3 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended September 30, 2008)</u>
10.32	<u>Amended and Restated Pledge and Intercreditor Agreement, dated as of February 20, 2009, between Dexia Crédit Local, Dexia Bank Belgium S.A., Financial Security Assurance Inc., FSA Asset Management LLC, FSA Capital Markets Services LLC and FSA Capital Management Services LLC (Incorporated by reference to Exhibit 10.19 to Financial Security Assurance Holdings Ltd.'s Form 10-K for the year ended December 31, 2008)</u>
10.33	<u>Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust I (Incorporated by reference to Exhibit 99.5 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)</u>
10.34	<u>Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust II (Incorporated by reference to Exhibit 99.6 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)</u>
10.35	<u>Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust III (Incorporated by reference to Exhibit 99.7 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)</u>
10.36	<u>Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust IV (Incorporated by reference to Exhibit 99.8 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)</u>
10.37	<u>Contribution Agreement, dated as of November 22, 2006, between Dexia S.A. and Financial Security Assurance Holdings Ltd. (Incorporated by reference to Exhibit 10.4 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 28, 2006)</u>
10.38	<u>Agreement and Amendment between Dexia Holdings Inc., Dexia Credit Local S.A. and the Company dated as of June 9, 2009 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 12, 2009)</u>
10.39	<u>Stock Purchase Agreement, dated as of December 22, 2014, between Assured Guaranty Corp. and Radian Guaranty Inc. (Incorporated by reference to Exhibit 10.44 to Form 10-K for the year ended December 31, 2014)</u>
10.40	<u>Summary of Annual Compensation*</u>
10.41	<u>Director Compensation Summary (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended May 5, 2017)*</u>
10.42	<u>Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as amended and restated as of May 7, 2009 and as amended through the Fourth Amendment (Incorporated by reference to Exhibit 10.43 to Form 10-K for the year ended December 31, 2016)*</u>
10.43	<u>Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.71 to Form 10-K for the year ended December 31, 2008)*</u>
10.44	

- Non-Qualified Stock Option Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.19 to Form 10-Q for the quarter ended June 30, 2009)*
- 10.45 2010 Form of Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2010)*
- 10.46 2010 Form of Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan for use without employment agreement (Incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended March 31, 2010)*
- 10.47 2012 Form of Executive Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.7 to Form 10-Q for the quarter ended March 31, 2012)*

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Exhibit Number	Description of Document
10.48	<u>2013 Form of Executive Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2013)*</u>
10.49	<u>Form of Restricted Stock Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as in effect for awards commencing in 2015 (Incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended March 31, 2015)*</u>
10.50	<u>Form of Executive Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as in effect for awards commencing in 2015 (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2015)*</u>
10.51	<u>2015 Form of Executive Performance-Based Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2015)*</u>
10.52	<u>Assured Guaranty Ltd. Employee Stock Purchase Plan, as amended through the second amendment (Incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended March 31, 2013)*</u>
10.53	<u>Assured Guaranty Ltd. Performance Retention Plan (As Amended and Restated as of February 14, 2008) (Incorporated by reference to Exhibit 10.58 to Form 10-K for the year ended December 31, 2007)*</u>
10.54	<u>Terms of Performance Retention Award Four Year Installment Vesting Granted on February 5, 2014 for Participants Subject to \$1 million Limit (Incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 2014)*</u>
10.55	<u>Assured Guaranty Ltd. Executive Severance Plan (Incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended March 31, 2012)*</u>
10.56	<u>Form of Acknowledgement Letter for Participants in Assured Guaranty Ltd. Executive Severance Plan (Incorporated by reference to Exhibit 10.11 to Form 10-Q for the quarter ended March 31, 2012)*</u>
10.57	<u>Assured Guaranty Ltd. Perquisite Policy, established February 9, 2012, and amended and restated on November 1, 2018 *</u>
10.58	<u>Form of Indemnification Agreement between the Company and its executive officers and directors (Incorporated by reference to Exhibit 10.42 to Form 10-K for the year ended December 31, 2005)*</u>
10.59	<u>Amended and Restated Assured Guaranty Ltd. Executive Officer Recoupment Policy (amended and restated effective November 3, 2015) (Incorporated by reference to Exhibit 10.84 to Form 10-K for the year ended December 31, 2015)*</u>
10.60	<u>Form of Acknowledgement of Amended and Restated Assured Guaranty Ltd. Executive Officer Recoupment Policy (Incorporated by reference to Exhibit 10.85 to Form 10-K for the year ended December 31, 2015)*</u>
10.61	<u>AG US Group Services Inc. Supplemental Executive Retirement Plan as amended through the Fifth Amendment thereto (Incorporated by reference to Exhibit 10.74 to Form 10-K for the year ended December 31, 2017)*</u>
10.62	<u>Financial Security Assurance Holdings Ltd. 1989 Supplemental Executive Retirement Plan (amended and restated as of December 17, 2004) (Incorporated by reference to Exhibit 10.4 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on December 17, 2004)*</u>
10.63	<u>Amendment to the Financial Security Assurance Holdings Ltd. 1989 Supplemental Employee Retirement Plan (Incorporated by reference to Exhibit 10.29 to Form 10-Q for the quarter ended June 30, 2009)*</u>
10.64	<u>Financial Security Assurance Holdings Ltd. 2004 Supplemental Executive Retirement Plan, as amended on February 14, 2008 (Incorporated by reference to Exhibit 10.3 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on February 15, 2008)*</u>
10.65	<u>Agreement and Plan of Merger, dated as of April 12, 2016, among Assured Guaranty Corp., Cultivate Merger Sub, Inc. and CIFG Holding Inc. (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter</u>

ended March 31, 2016)

- 10.66 Share Purchase Agreement relating to the sale and purchase of MBIA UK Insurance Limited, dated September 29, 2016, between MBIA UK (Holdings) Limited and Assured Guaranty Corp. (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2016)
- 10.67 2016 Form of Executive Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.92 to Form 10-K for the year ended December 31, 2016)*
- 10.68 2016 Form of Performance-Based Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.93 to Form 10-K for the year ended December 31, 2016)*

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Exhibit Description of Document
Number

10.69	<u>2017 Form of Executive Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended May 5, 2017)*</u>
10.70	<u>2017 Form of Performance-Based Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended May 5, 2017)*</u>
10.71	<u>Separation Agreement dated November 1, 2017 between the Company and James Michener (Incorporated by reference to Exhibit 10.86 to Form 10-K for the year ended December 31, 2017)*</u>
21.1	<u>Subsidiaries of the Registrant</u>
23.1	<u>Accountants Consent</u>
31.1	<u>Certification of CEO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
31.2	<u>Certification of CFO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
32.1	<u>Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u>
32.2	<u>Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u>
101.1	The following financial information from Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 formatted in XBRL (eXtensible Business Reporting Language) interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at December 31, 2018 and 2017; (ii) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements.

*Management contract or compensatory plan
ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Assured Guaranty Ltd.

By: Name: Dominic J. Frederico

Title: President and Chief Executive Officer

Date: March 1, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Position	Date
	Chairman	
Franciscoof the L. Borges	Board; Director	March 1, 2019
Dominic J. Frederico	President and Chief Executive Officer; Director	March 1, 2019
Robert A. Bailenson	Chief Financial Officer (Principal Financial and Accounting Officer and Duly Authorized Officer)	March 1, 2019
G. Lawrence Buhl	Director	March 1, 2019
Bonnie L.	Director	March 1, 2019

Howard

Thomas W. Jones	Director	March 1, 2019
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Patrick W. Kenny	Director	March 1, 2019
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Alan J. Kreczko	Director	March 1, 2019
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Simon W. Leathes	Director	March 1, 2019
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Michael T. O'Kane	Director	March 1, 2019
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Yukiko Omura	Director	March 1, 2019
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